

TUOLUMNE COUNTY ASSESSMENT PRACTICES SURVEY

OCTOBER 2014

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No. 2014/053

October 29, 2014

TO COUNTY ASSESSORS:

**TUOLUMNE COUNTY
ASSESSMENT PRACTICES SURVEY**

A copy of the Tuolumne County Assessment Practices Survey Report is enclosed for your information. The Board of Equalization (BOE) completed this survey in fulfillment of the provisions of sections 15640-15646 of the Government Code. These code sections provide that the BOE shall make surveys in each county and city and county to determine that the practices and procedures used by the county assessor in the valuation of properties are in conformity with all provisions of law.

The Honorable Ken Caetano, Tuolumne County Assessor-Recorder, was provided a draft of this report and given an opportunity to file a written response to the findings and recommendations contained therein. The report, including the assessor's response, constitutes the final survey report, which is distributed to the Governor, the Attorney General, and the State Legislature; and to the Tuolumne County Board of Supervisors and Grand Jury.

Fieldwork for this survey was performed by the BOE's County-Assessed Properties Division from November through December 2012. The report does not reflect changes implemented by the assessor after the fieldwork was completed.

Mr. Caetano and his staff gave their complete cooperation during the survey. We gratefully acknowledge their patience and courtesy during the interruption of their normal work routine.

These survey reports give government officials in California charged with property tax administration the opportunity to exchange ideas for the mutual benefit of all participants and stakeholders. We encourage you to share with us your questions, comments, and suggestions for improvement.

Sincerely,

/s/ Dean R. Kinnee

Dean R. Kinnee
Acting Deputy Director
Property Tax Department

DRK:dcl
Enclosure

TABLE OF CONTENTS

INTRODUCTION.....	1
SCOPE OF ASSESSMENT PRACTICES SURVEYS	2
EXECUTIVE SUMMARY	3
OVERVIEW OF TUOLUMNE COUNTY	5
ADMINISTRATION	7
BUDGET AND STAFFING	7
WORKLOAD	7
STAFF PROPERTY AND ACTIVITIES	8
ASSESSMENT APPEALS	9
EXEMPTIONS	12
ASSESSMENT OF REAL PROPERTY	16
CHANGE IN OWNERSHIP	16
NEW CONSTRUCTION	24
DECLINES IN VALUE	27
CALIFORNIA LAND CONSERVATION ACT PROPERTY	29
TAXABLE POSSESSORY INTERESTS	30
MINERAL PROPERTY	35
ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES.....	37
AUDIT PROGRAM	37
BUSINESS PROPERTY STATEMENT PROGRAM.....	39
BUSINESS EQUIPMENT VALUATION	40
MANUFACTURED HOMES	40
AIRCRAFT	42
VESSELS	44
APPENDIXES	46
A. COUNTY-ASSESSED PROPERTIES DIVISION SURVEY GROUP	46
B. RELEVANT STATUTES AND REGULATIONS.....	47
ASSESSOR'S RESPONSE TO BOE'S FINDINGS	54

INTRODUCTION

Although county government has the primary responsibility for local property tax assessment, the State has both a public policy interest and a financial interest in promoting fair and equitable assessments throughout California. The public policy interest arises from the impact of property taxes on taxpayers and the inherently subjective nature of the assessment process. The financial interest derives from state law that annually guarantees California schools a minimum amount of funding; to the extent that property tax revenues fall short of providing this minimum amount of funding, the State must make up the difference from the general fund.

The assessment practices survey program is one of the State's major efforts to address these interests and to promote uniformity, fairness, equity, and integrity in the property tax assessment process. Under this program, the State Board of Equalization (BOE) periodically reviews the practices and procedures (surveys) of every county assessor's office. This report reflects the BOE's findings in its current survey of the Tuolumne County Assessor-Recorder's Office.¹

The assessor is required to file with the board of supervisors a response that states the manner in which the assessor has implemented, intends to implement, or the reasons for not implementing the recommendations contained in this report. Copies of the response are to be sent to the Governor, the Attorney General, the BOE, and the Senate and Assembly; and the Tuolumne County Board of Supervisors and Grand Jury. That response is to be filed within one year of the date the report is issued and annually thereafter until all issues are resolved. The Honorable Ken Caetano, Tuolumne County Assessor-Recorder, elected to file his initial response prior to the publication of our survey; it is included in this report following the Appendixes.

While typical management audit reports emphasize problem areas, they say little about operations that are performed correctly. Assessment practices survey reports also tend to emphasize problem areas, but they also contain information required by law (see *Scope of Assessment Practices Surveys* at page 2) and information that may be useful to other assessors. The latter information is provided in the hope that the report will promote uniform, effective, and efficient assessment practices throughout California.

¹ This review covers only the assessment functions of the office.

SCOPE OF ASSESSMENT PRACTICES SURVEYS

Government Code sections 15640 and 15642 define the scope of an assessment practices survey. As directed by those statutes, our survey addresses the adequacy of the procedures and practices employed by the assessor in the valuation of property, the volume of assessing work as measured by property type, and the performance of other duties enjoined upon the assessor.

In addition, pursuant to Revenue and Taxation Code² section 75.60, the BOE determines through the survey program whether a county assessment roll meets the standards for purposes of certifying the eligibility of the county to continue to recover costs associated with administering supplemental assessments. Such certification is obtained either by satisfactory statistical result from a sampling of the county's assessment roll, or by a determination by the survey team—based on objective standards defined in regulation—that there are no significant assessment problems in the county. The statutory and regulatory requirements pertaining to the assessment practices survey program are detailed in Appendix B.

Our survey of the Tuolumne County Assessor-Recorder's Office included reviews of the assessor's records, interviews with the assessor and his staff, and contacts with officials in other public agencies in Tuolumne County who provided information relevant to the property tax assessment program.

Since this survey did not include an assessment sample pursuant to Government Code section 15640(c), our review included an examination to determine whether "significant assessment problems" exist, as defined by Rule 371.

This report offers recommendations to help the assessor correct assessment problems identified by the survey team. The survey team makes recommendations when assessment practices in a given area are not in accordance with property tax law or generally accepted appraisal practices. An assessment practices survey is not a comprehensive audit of the assessor's entire operation. The survey team does not examine internal fiscal controls or the internal management of an assessor's office outside those areas related to assessment. In terms of current auditing practices, an assessment practices survey resembles a compliance audit—the survey team's primary objective is to determine whether assessments are being made in accordance with property tax law.

² Unless otherwise stated, all statutory references are to the California Revenue and Taxation Code and all rule references are to sections of California Code of Regulations, Title 18, Public Revenues.

EXECUTIVE SUMMARY

As stated in the Introduction, this report emphasizes problem areas we found in the operations of the assessor's office.

Many of our recommendations concern portions of programs which are currently effective, but need improvement. In many instances, the assessor is already aware of the need for improvement and is considering changes as time and resources permit.

In the area of administration, we found that the assessor is properly handling the staffing, workload, staff property and activities, and assessment appeals programs. However, we found that the exemptions program is in need of improvement.

In the area of real property assessment, we noted a need for improvement in the following programs: change in ownership, new construction, declines in value, California Land Conservation Act (CLCA) property, taxable possessory interests, and mineral property.

In the area of personal property and fixtures assessment, we found that the assessor has effective programs for business property statements, business equipment valuation, and aircraft. However, we found that the audit, manufactured homes, and vessels programs are in need of improvement.

Despite the recommendations noted in this report, we found that most properties and property types are assessed correctly.

We found no significant assessment problems as defined in Rule 371. Since Tuolumne County was not selected for assessment sampling pursuant to Government Code section 15643(b), this report does not include the assessment ratios that are generated for surveys that include assessment sampling. Accordingly, pursuant to section 75.60, Tuolumne County continues to be eligible for recovery of costs associated with administering supplemental assessments.

Following is a list of the formal recommendations contained in this report, arrayed in the order that they appear in the text.

RECOMMENDATION 1:	Assess all cemeteries in the county and exempt those cemeteries, or portions thereof, that qualify for the exemption.	15
RECOMMENDATION 2:	Improve the change in ownership program by correctly implementing the penalty process in accordance with section 482(a).....	18
RECOMMENDATION 3:	Improve the change in ownership program by providing documentation to support enrolling the purchase price as current market value.	22

RECOMMENDATION 4:	Document all building permits received for solar installations in the property record files.	26
RECOMMENDATION 5:	Value all properties in decline-in-value status at current market value.	28
RECOMMENDATION 6:	Improve the CLCA property program by using an appropriate income stream for capitalizing restricted tree and vine income.	30
RECOMMENDATION 7:	Improve the taxable possessory interests program by: (1) using Board-prescribed form BOE-502-P, <i>Possessory Interests Annual Usage Report</i> , (2) considering market rents in the value determination of taxable possessory interests, (3) assessing all taxable possessory interests located at the fairgrounds that do not meet the requirements of the low-value property exemption, (4) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach-direct method, (5) reappraising taxable possessory interests in compliance with section 61(b)(2), and (6) properly issuing supplemental assessments for taxable possessory interests.	32
RECOMMENDATION 8:	Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.	35
RECOMMENDATION 9:	Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.	38
RECOMMENDATION 10:	Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.	38
RECOMMENDATION 11:	Improve the manufactured homes program by: (1) periodically reviewing manufactured home assessments for declines in value, and (2) reassessing all manufactured homes that are involved in a change in ownership.	41
RECOMMENDATION 12:	Improve the vessels program by: (1) sending an annual <i>Vessel Property Statement</i> to the owners of vessels having an aggregate cost of \$100,000 or more pursuant to section 441, and (2) adding sales tax as a component of market value.	45

OVERVIEW OF TUOLUMNE COUNTY

Tuolumne County is located close to the center of California. The county encompasses an area of 2,255 square miles, which consists of 2,201 square miles of land and 54 square miles of water.

Created in 1850, Tuolumne County was one of California's original 27 counties.

Tuolumne County is bordered by Calaveras County to the northwest, Alpine County to the north, Mono County to the east, Mariposa and Madera Counties to the south, and Stanislaus County to the west.

As of 2012, Tuolumne County had a population of 54,008.

Tuolumne County has only one incorporated city, Sonora, which is also the county seat. The county contains a large portion of federally-owned lands, which includes portions of Yosemite National Park and Stanislaus National Forest.



The following table displays information pertinent to the 2012-13 assessment roll:

	PROPERTY TYPE	ENROLLED VALUE
Secured Roll	Land	\$1,954,403,133
	Improvements	\$3,842,058,497
	Fixtures	\$43,218,897
	Personal Property	\$118,410,572
	Total Secured	\$5,958,091,099
Unsecured Roll	Land	\$16,448,190
	Improvements	\$9,162,046
	Fixtures	\$28,145,359
	Personal Property	\$137,778,375
	Total Unsecured	\$191,533,970
Exemptions³		(\$205,124,654)
	Total Assessment Roll	\$5,944,500,415

The next table summarizes the change in assessed values over recent years:⁴

ROLL YEAR	TOTAL ROLL VALUE	CHANGE	STATEWIDE CHANGE
2012-13	\$5,944,500,000	-2.2%	1.4%
2011-12	\$6,076,642,000	-3.5%	0.1%
2010-11	\$6,298,051,000	-4.9%	-1.9%
2009-10	\$6,619,581,000	-0.9%	-2.4%
2008-09	\$6,677,311,000	5.9%	4.7%

³ The value of the Homeowners' Exemption is excluded from the exemptions total.

⁴ State Board of Equalization Annual Report, Table 7.

ADMINISTRATION

This section of the survey report focuses on administrative policies and procedures of the assessor's office that affect both the real property and business property assessment programs. Subjects addressed include the assessor's budget and staffing, workload, staff property and activities, assessment appeals, and exemptions.

Budget and Staffing

The following table shows the assessor's budget and staffing over recent years:

BUDGET YEAR	GROSS BUDGET	CHANGE	PERMANENT STAFF
2012-13	\$852,923	3.5%	11
2011-12	\$823,547	-8.3%	11
2010-11	\$897,707	-12.0%	11
2009-10	\$1,020,171	-4.1%	13
2008-09	\$1,063,362	3.8%	13

At the time of our survey, the assessor had 11 full-time budgeted positions, which consisted of the assessor, the assistant assessor, 3 appraisers, 1 auditor-appraiser, 1 cadastral/GIS technician, and 4 senior assessment technicians.

Workload

Generally, the assessor is responsible for annually determining the assessed value of all real property and business personal property (including machinery and equipment) in the county. In order to accomplish this task, the assessor reviews recorded documents and building permits to discover assessable property. In addition, the assessor will identify and value all business personal property (including machinery and equipment), process and apply tax exemption claims for property owned by qualifying religious and welfare organizations, and prepare assessment appeals for hearing before the local board of equalization.

In addition, for most real property, the assessor is required to annually enroll the lower of current market value or the factored base year value. Therefore, when any factor causes a decline in the market value of real property, the assessor must review the assessment of the property to determine whether the decline has impacted the taxable value of the property for that year. In certain economic times, this decline may greatly impact the workload of the assessor. Additionally, the number of assessment appeals may increase during this period.

As shown in prior tables, the total roll value has decreased four of the past five years, reflecting an overall decrease of 11 percent over the five year period, while the gross budget has decreased three of the past five years, reflecting a decrease of almost 20 percent between budget years 2008-09 and 2012-13. During this same time period, the assessor's workload has been changing.

The number of reappraisable transfers due to changes in ownership has increased three of the past four years, most recently reflecting a decrease. The number of new construction assessments has decreased each of the past four years, while the number of decline-in-value assessments has increased during the same time period. The number of assessment appeals filed has decreased two of the past three years.

These trends are shown in the following table:

WORKLOAD DESCRIPTION	2012-13	2011-12	2010-11	2009-10	2008-09
Reappraisable Transfers	1,307	1,562	1,383	1,206	1,031
New Construction Assessments	173	219	308	476	697
Decline-In-Value Assessments	8,494	8,210	7,125	5,405	5,309
Assessment Appeals Filed	21	17	24	25	21

Staff Property and Activities

The BOE's assessment practices survey includes a review of the assessor's internal controls and safeguards as they apply to staff-owned properties and conflicts of interest. This review is done to ensure there are adequate and effective controls in place to prevent the assessor's staff from being involved in the assessment of property in which they have an ownership interest and to prevent conflicts of interest.

The assessor becomes aware of employee-owned property through name recognition when a recorded deed is received in the office, through self-declaration by the employee acquiring the property, and from the annual filing of the California Fair Political Practices Commission Form 700, Statement of Economic Interests (Form 700), which requests information regarding employee ownership in any real property, other than their primary residence, as well as ownership interest in any business entity.

In Tuolumne County, the assessor, assistant assessor, appraisers, and auditor-appraiser are required to submit Form 700 by April 1 each year. The county clerk and auditor-controller (clerk/auditor-controller) of the auditor-controller's office maintains the filing of Form 700 and notifies the assessor's staff each year by email of the requirements to file. Upon our review, we found that all required staff submitted Form 700 to the clerk/auditor-controller as required. In addition, we found that the assessor certifies to the BOE each year that he and his staff have complied with the requirements of section 672 by disclosing their financial interests.

The assessor requires new employees to file an *Employee Property Activity Report* within 30 days of employment, disclosing all real and personal property they own within Tuolumne County. All existing staff members are also required to file an *Employee Property Activity Report* on an annual basis. These forms are collected and maintained by the assistant assessor. In addition, the assistant assessor keeps an Employee Check List, which lists all employees in the office, the date each employee filed the *Employee Property Activity Report*, all real and/or personal property owned by each employee (if any), and any changes in ownership, decline in value, or new construction occurring on the employee-owned property.

The assistant assessor is responsible for reassessing any employee-owned property experiencing a reappraisable event. If the assistant assessor chooses, he may assign a designee to reassess an employee-owned property; however, if a designee is assigned, the assistant assessor must review the appraisal and sign the appraisal worksheet for approval. In addition, the assistant assessor is responsible for the preparation and presentation of all assessment appeals filed on an employee-owned property or property owned by the employee's family. All assessment appeals on employee-owned property (or property owned by the employee's family) must be heard and decided by an appeals board; the value may not be stipulated.

The assessor has a conflict of interest code that is maintained by the board of supervisors. Every two years, the board of supervisors sends the assessor a *FY 20XX Local Agency Biennial Notice*, along with a copy of the assessor's conflict of interest code, for the assessor to review and amend any necessary changes. The assessor then completes and returns the biennial notice to the board of supervisors. The assessor's conflict of interest code lists the designated employee positions required to comply. The code addresses filing statements of economic interests; disclosure of real property, personal income, and/or business entity income; disqualification from making any decisions in regards to a direct or indirect interest in real or personal property; and violation provisions for non-compliance. In addition, *Personnel Rules and Regulations of the County of Tuolumne* further addresses outside employment and disciplinary actions for all county employees.

We reviewed the assessor's procedures regarding staff property and activities, including the assessor's practices related to conflicts of interest and reporting economic interests. We also reviewed the assessor's practices related to the assessment of staff-owned property, which included reviewing several staff-owned property record files. This review included any recent activity on the property, such as new construction, changes in ownership, or declines in value. We reviewed recorded documents, claim forms filed for exclusions from reassessment, supplemental assessments, assessment roll changes, factored base year values, and requests for informal reviews. We found that all assessments had been completed by an appraiser other than the owner of the property and that the values enrolled were reasonable. In addition, we found that the assistant assessor reviews the appraisals for all assessable events. We found no evidence that any staff member was directly involved in the assessment of their own property.

We have no recommendations for the assessor's staff property and activities program.

Assessment Appeals

The assessment appeals function is prescribed by article XIII, section 16 of the California Constitution. Sections 1601 through 1641.5 are the statutory provisions governing the conduct and procedures of assessment appeals boards and the manner of their creation. As authorized by Government Code section 15606, the Board has adopted Rules 301 through 326 to regulate the assessment appeals process.

Pursuant to section 1601, the body charged with the equalization function for the county is the appeals board, which is either the county board of supervisors meeting as a county board of equalization or an appointed assessment appeals board. Appeal applications must be filed with the clerk of the board (clerk). The regular time period for filing an appeal application, as set forth

in section 1603, is July 2 to September 15; however, if the assessor does not provide notice to all taxpayers of real property on the local secured roll of the assessed value of their real property by August 1, then the last day of the filing period is extended to November 30. Section 1604(c) and Rule 309 provide that the appeals board must make a final determination on an appeal application within two years of the timely filed appeal application unless the taxpayer and appeals board mutually agree to an extension of time or the application is consolidated for hearing with another application for reduction by the same taxpayer.

In Tuolumne County, the five-member board of supervisors sit as the local board of equalization. The county does not have hearing officers. The filing period for assessment appeals in Tuolumne County is July 2 through November 30.

The clerk is responsible for providing applications for changed assessment to the public. The application can be obtained at the clerk's office or on the county's website. The clerk will also mail applications to taxpayers per telephone or mail requests. Tuolumne County does not currently accept electronically submitted applications for changed assessments.

Once an application is received, the clerk date stamps the application, reviews it for completeness, and determines if it is valid and timely filed. The clerk provides a copy of the application to the assessor. Appeals hearings are scheduled by the clerk and the applicant is sent a notice of the hearing no less than 45 days prior to the date of the hearing in accordance with section 1605.6.

The clerk and the assistant assessor both track the progress of the assessment appeals and work closely together in an effort to resolve all appeals within the two-year time period. No appeal filed in the last five years has gone unresolved for more than two years without a timely filed extension being received.

The following table summarizes the assessment appeals workload over recent years:

YEAR	2012-13	2011-12	2010-11	2009-10	2008-09
Appeals Filed	21	17	24	25	21
Appeals Carried Over From Prior Year	11	22 ⁵	22	12	25
Total Appeals Workload	32	39	46	37	46
Resolution:					
Withdrawn	3	24	11	6	7
Stipulation	1	4	10	9	23
Appeals Reduced	0	0	0	0	0
Appeals Upheld	0	0	0	0	4
Appeals Increased	0	0	0	0	0
Other Determination*	0	0	0	0	0
Total Resolved	4	28	21	15	34
To Be Carried Over**	28	11	25	22	12

* Note: Includes, but not limited to late-filed appeals, applicants' failure to appear and board denied applications.

**Note: "To Be Carried Over" includes appeals with time extensions by mutual agreement of the parties.

The assistant assessor oversees and tracks the assessment appeals process in the assessor's office. Once an assessment appeal application is received from the clerk, the assistant assessor reviews the application and assigns the appeal to an appraiser for handling. The appraiser will attempt to contact the applicant to discuss the current assessed value and to determine the basis of the applicant's request for a reduction in an effort to resolve the appeal prior to the hearing.

If the appraiser and the applicant agree that the current assessed value is correct and no value change is necessary, the applicant submits a withdrawal request with the clerk. If the appraiser and the applicant agree to a value different from the current assessed value, the appraiser prepares a stipulation outlining the details of the requested change to the current assessed value. All stipulations are reviewed and approved by the assistant assessor before being mailed to the applicant. The applicant signs and returns the stipulation to the assessor, so it can be presented to the local board of equalization for approval by either the assessor or the assistant assessor. If no agreement can be reached, the assessment appeals process continues and the appeal is scheduled for hearing.

For those assessment appeals that go to hearing, the assistant assessor prepares and presents all appeals involving real property, while the auditor-appraiser prepares and presents all appeals

⁵ The assessor incorrectly reported the number of "Appeals Carried Over From Prior Year" in *A Report on Budgets, Workloads, and Assessment Appeals Activities in California Assessors' Offices* for 2011-12. The assessor reported 22; however, the number should be 25, as indicated by the number "To Be Carried Over From Prior Year" from 2010-11, based on the numbers previously reported by the assessor.

involving business or personal property. The assessor or the assistant assessor attends all hearings. During our survey, we were unable to attend an assessment appeals hearing. However, we did review several property records involving assessment appeals. We found the appeal presentations and stipulations to be well prepared and properly documented. Overall, we found the assessor's appeals program to be well administered and we have no recommendations for this program.

Exemptions

In Tuolumne County, exemptions are administered by a senior assessment technician. The assessor also plays an active role in the administration of exemptions, consulting and advising the senior assessment technician on the more important or difficult issues involving exemption claims. Field checks are performed for all new exemption claims to ensure exempt use of the property. The assessor relies on Assessors' Handbook Section 267, *Welfare, Church, and Religious Exemptions* (AH 267), and contact with the BOE for guidance in the administration of property tax exemptions. Exemption claim forms are available at the assessor's office.

Church and Religious Exemptions

Article XIII, section 3(f) of the California Constitution authorizes exemption of property used exclusively for religious worship. This constitutional provision, implemented by section 206, exempts buildings, the land on which they are situated, and equipment used exclusively for religious worship when such property is owned or leased by a church. Property that is reasonably and necessarily required for church parking is also exempt under article XIII, section 4(d) of the California Constitution, provided that the property is not used for commercial purposes. The church parking exemption is available for owned or leased property meeting the requirements of section 206.1. The Legislature has also implemented the religious exemption in section 207, which exempts property owned by a church and used exclusively for religious worship or for both religious worship and school purposes (excluding property used solely for schools of collegiate grade).

County assessors administer the church and religious exemptions. The church exemption, including the church parking exemption, requires an annual filing of the exemption claim. The religious exemption requires a one-time filing by the claimant, although the assessor annually mails a form to claimants to confirm continuing eligibility for the exemption. Once granted, the religious exemption remains in effect until terminated or until the property is no longer eligible for the exemption.

The following table shows religious and church exemption data for recent years:

YEAR	RELIGIOUS EXEMPTIONS	EXEMPTED VALUE	CHURCH EXEMPTIONS	EXEMPTED VALUE
2012-13	67	\$30,326,912	9	\$4,590,585
2011-12	68	\$29,474,695	1	\$4,502,691
2010-11	68	\$29,300,222	1	\$4,468,721
2009-10	68	\$27,027,146	1	\$3,977,400
2008-09	67	\$24,692,249	1	\$3,899,417

Most religious organizations in Tuolumne County file the religious exemption rather than the church or welfare exemption. We found that the assessor properly sends BOE-267-SNT, *Religious Exemption Change in Eligibility or Termination Notice*, to organizations having received the religious exemption in the past. Since the religious exemption is a one-time filing, the assessor correctly does not apply a late-filing provision for failure to return the notice. However, failure to return the notice may prompt a field investigation to ensure that the property continues to be used in an exempt manner.

We found the assessor's church and religious exemptions program to be properly administered and we have no recommendations for this program.

Welfare Exemption

Article XIII, section 4(b) of the California Constitution authorizes the Legislature to exempt property owned and used exclusively for religious, hospital, or charitable purposes by organizations formed and operated exclusively for those purposes. When the Legislature enacted section 214 to implement this constitutional provision, a fourth purpose (scientific) was added. Both the organizational and property use requirements must be met for the exemption to be granted.

The welfare exemption is co-administered by the BOE and county assessors. The BOE is responsible for determining whether an organization itself is eligible for the welfare exemption and for issuing either *Organizational Clearance Certificates* (OCCs) to qualified organizations or *Supplemental Clearance Certificates* (SCCs) to limited partnerships, which have a qualified organization as the managing general partner, that own and operate low-income housing. The assessor is responsible for determining whether the use of a qualifying organization's property is eligible for exemption and for approving or denying exemption claims.

The assessor may not grant a welfare exemption on an organization's property unless the organization holds a valid OCC issued by the BOE or a valid SCC issued by the BOE if the property is a low-income housing property owned and operated by a limited partnership, which has a qualified organization (OCC holder) as the managing general partner. The assessor may, however, deny an exemption claim based on non-qualifying use of the property, notwithstanding that the BOE has issued an OCC or SCC to the claimant.

The following table shows welfare exemption data for recent years:

YEAR	WELFARE EXEMPTIONS	EXEMPTED VALUE
2012-13	114	\$146,421,449
2011-12	72	\$144,434,511
2010-11	74	\$136,224,289
2009-10	72	\$135,496,737
2008-09	60	\$127,899,877

In Tuolumne County, appraisers perform field checks for new welfare exemption claims to ensure exempt use of the property. Field checks are also performed when use of the property changes. The assessor uses BOE-267-FIR, *Welfare Exemption Assessor's Field Inspection Report*, to note use of the property.

When new welfare exemption claims are filed, the assessor ensures that the claim is complete, including any necessary supplemental affidavits, and that a valid OCC accompanies the claim. Claims are date stamped when received.

We found the assessor's welfare exemption program to be properly administered and we have no recommendations for this program.

Cemetery Exemption

Among the many property tax exemptions available to qualified organizations, none is more complex than the cemetery exemption. One set of rules exist for non-profit cemeteries and another set for for-profit cemeteries. The California Constitution provides for property tax exemption of cemeteries meeting specific requirements as explained in Assessors' Handbook Section 265, *Cemetery Exemption* (AH 265). The assessor must be aware of developed land, land held passively for future expansion, and excess land. The assessor must note sold plots, indoor and outdoor crypts in mausoleums, niches in columbariums, walkways and garden areas, administrative areas, flower shops, ceremony rooms, and equipment used in the course of business.

Because cemeteries typically add value in the form of mausoleums and columbariums, various base year values come into play. A cemetery may have parcels with several different base year values and improvements with additional base year values. The exemption is then applied to these several base year values according to sold plots, niches, and crypts, and whether the cemetery is for-profit or not for profit.

While reviewing the BOE-802s for Tuolumne County exemptions, we noted that the assessor was not reporting any values or exemptions for cemeteries. According to the assessor, while cemetery exemption claims are mailed, it is the assessor's policy not to assess cemeteries.

RECOMMENDATION 1: Assess all cemeteries in the county and exempt those cemeteries, or portions thereof, that qualify for the exemption.

We found that the assessor does not assess cemeteries in Tuolumne County, regardless of whether the cemetery is exempt from taxation or not.

Assessors' Handbook Section 501, *Basic Appraisal*, describes the role of county assessors, stating that assessors are responsible for the assessment of all taxable property within their local jurisdictions, except state assessed property. This responsibility involves three main objectives:

- (1) Discovering and taking inventory of all taxable property within the county;
- (2) Determining the taxability of each item of property; and
- (3) Valuing and assessing each item of taxable property in accordance with property tax law.

Cemeteries, especially for-profit cemeteries, are often not entirely exempt. Mortuary, crematory, and chapel facilities are generally not exempt for either for-profit or non-profit cemeteries. Unsold burial plots and passively held land are not exempt for for-profit cemeteries.

The assessor's policy of not assessing cemeteries is not in compliance with statutory requirements. In addition, since not all cemeteries are exempt from taxation and others may only be partially exempt, certain properties may be incorrectly escaping assessment. The assessor should implement a program to discover, identify, and assess all cemeteries in Tuolumne County and apply exemptions towards those properties that qualify for the cemetery exemption.

ASSESSMENT OF REAL PROPERTY

The assessor's program for assessing real property includes the following principal elements:

- Revaluation of properties that have changed ownership.
- Valuation of new construction.
- Annual review of properties that have experienced declines in value.
- Annual revaluations of certain properties subject to special assessment procedures, such as property subject to California Land Conservation Act contracts, taxable possessory interests, and mineral property.

Article XIII A of the California Constitution provides that, absent post-1975 new construction or changes in ownership, the taxable value of real property shall not exceed its 1975 full cash value, except that it can be adjusted annually for inflation by a factor not to exceed 2 percent.

Change in Ownership

Section 60 defines change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee simple interest. Sections 61 through 69.5 further clarify what is considered a change in ownership and what is excluded from the definition of change in ownership for property tax purposes. Section 50 requires the assessor to enter a base year value on the roll for the lien date next succeeding the date of the change in ownership; a property's base year value is its fair market value on the date of change in ownership.

Discovery

The assessor's primary source for discovering properties that have changed ownership is through the analysis of deeds and other recorded documents from the county recorder's office. The assessor also discovers potential changes in ownership through newspaper articles, notifications of a death of a property owner, and correspondence from taxpayers.

The following table shows the total number of recorded documents received and the total number of reappraisable transfers processed in Tuolumne County in recent years:

YEAR	RECORDED DOCUMENTS RECEIVED	REAPPRAISABLE TRANSFERS
2012-13	4,168	1,307
2011-12	4,687	1,562
2010-11	4,651	1,383
2009-10	4,762	1,206
2008-09	4,064	1,031

Document Processing

The recorder's office requires BOE-502-A, *Preliminary Change of Ownership Report* (PCOR), to accompany documents submitted for recording that transfer ownership of real property. If a transfer document is received without a PCOR, the recorder's office will apply a \$20 charge to the recording fee. PCORs are available at both the assessor's and recorder's offices, as well as on their websites. Tuolumne County has a local ordinance that requires the assessor's parcel number (APN) to be noted on all recorded documents involving real property that are submitted for recording.

In Tuolumne County, the assessor also functions as the county recorder. Recorded documents are prescreened by the recorder's office, based on criteria provided by the assessor, and sent electronically to the assessor's office on a daily basis. The assessor retrieves the original PCORs from the recorder's office and scans them into the computer system, so they can be merged with the corresponding recorded document. The original PCORs are kept in a secure file cabinet not accessible to the public.

A senior assessment technician reviews each recorded document and corresponding PCOR in order to identify the property being transferred and to verify that the property being transferred is owned by the grantor(s) as specified on the deed. The senior assessment technician determines the percentage of ownership interest being transferred and whether any of that percentage being transferred results in a reappraisable event. If the transfer may be eligible for a possible exclusion, any necessary correspondence is sent to the property owner. Transfers that do not result in a reappraisable event are noted in the property record. For those transfers resulting in a reappraisable event, the property record file is pulled and a coversheet containing transfer information is attached to the file before it is forwarded on to the appropriate appraiser for valuation.

We examined several recorded documents and found that the assessor has an effective program for the discovery and determination of reappraisable events.

Penalties

When a recorded document is received without a PCOR or the PCOR is incomplete, the senior assessment technician sends the property owner a BOE-502-AH, *Change in Ownership Statement* (COS), along with a letter requesting that the COS be returned within 21 days. The senior assessment technician maintains a tracking log in order to monitor the progress of the COS. If the COS is not returned, a second COS is sent allowing the property owner an additional 14 days to respond. If there is still no response, the senior assessment technician sends a third and final COS allowing the property owner 10 more days to respond before the property record is forwarded to an appraiser for valuation. The assessor does not apply penalties if the property owner does not return the COS or if the COS is not returned timely.⁶ Tuolumne County has not adopted an ordinance pursuant to section 483(b), which allows the assessor to automatically abate penalties.

RECOMMENDATION 2: Improve the change in ownership program by correctly implementing the penalty process in accordance with section 482(a).

It is the assessor's current practice not to apply penalties when a property owner fails to return a COS or fails to return the COS timely.

Section 482(a) provides that if a person or legal entity required to file a statement described in section 480 fails to do so within 90 days (45 days prior to January 1, 2012) from the date of a written request by the assessor, a specific penalty is applied. When the property owner fails to return the COS timely, the assessor should notify the property owner of the penalty being applied and inform them of the abatement process as described in section 483(a).

The information contained in a properly completed COS is important because it assists the assessor in making an accurate assessment of a property. The assessor's current practice of not applying penalties to property owners who fail to file a COS or fail to file a COS by the deadline is contrary to statute and results in unequal treatment of taxpayers.

Transfer Lists

Pursuant to section 408.1(a), the assessor shall maintain a list of transfers of any interest in property, other than an undivided interest, within the county, which have occurred within the preceding two-year period. Section 408.1(e) states the provisions of section 408.1(a) shall not apply to any county with a population under 50,000 people, as determined by the 1970 federal decennial census. Based on the population of 22,169 in Tuolumne County in 1970, the assessor is not required to maintain a transfer list and has elected not to maintain one.

⁶ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amended section 482(a) to allow property owners 90 days to return a completed COS when requested by the assessor before penalties were applicable. Prior to this amendment, property owners only had 45 days to return the completed COS before penalties were applicable.

Legal Entity Ownership Program (LEOP)

Section 64 provides that certain transfers of ownership interests in a legal entity constitute a change in ownership of all real property owned by the entity and any entities under its ownership control. Rule 462.180 interprets and clarifies section 64, providing examples of transactions that either do or do not constitute a change in entity control and, hence, either do or do not constitute a change in ownership of the real property owned by the entity. Discovery of these types of changes in ownership is difficult for assessors, because ordinarily there is no recorded document evidencing a transfer of an ownership interest in a legal entity.

To assist assessors, the BOE's LEOP section gathers and disseminates information regarding changes in control and ownership of legal entities that hold an interest in California real property. On a monthly basis, LEOP transmits to each county assessor a listing, with corresponding property schedules, of legal entities that have reported a change in control under section 64(c) or change in ownership under section 64(d). However, because the property affected is self-reported by the person or entity filing information with the BOE, LEOP advises assessors to independently research each entity's property holdings to determine whether all affected parcels have been identified and properly reappraised.

Sections 480.1, 480.2, and 482 set forth the filing requirements and penalty provisions for reporting of legal entity changes in control under section 64(c) and changes in ownership under section 64(d). A change in ownership statement must be filed with the BOE within 90 days of the date of change in control or change in ownership; reporting is made on BOE-100-B, *Statement of Change in Control and Ownership of Legal Entities*. Section 482(b) provides for application of a penalty if a person or legal entity required to file a statement under sections 480.1 and 480.2 does not do so within 90 days from the earlier of (1) the date of change in control or ownership or (2) the date of written request by the BOE.⁷ The BOE advises county assessors of entities that are subject to penalty, so they can impose the applicable penalty to the entity's real property.

In Tuolumne County, the assessor discovers changes in control or ownership of legal entities by reviewing monthly LEOP reports from the BOE, recorded documents, business property statements, local media, and information from other counties.

When the assessor receives the monthly LEOP reports, a senior assessment technician reviews the report for the effective dates and any changes that have occurred. The senior assessment technician identifies and reviews all parcels located within the county. A name search is also performed to ensure that all of the entity's real property is identified and reassessed. Once a change in control or ownership of a legal entity has been confirmed and processed for a reappraisable event, the parcels involved are assigned to the appropriate appraiser for valuation.

Our review of several property records showed the assessor does an effective job reviewing LEOP reports and reassessing all property interests identified on BOE-100-Bs. The assessor also reviews any additional properties owned by the entity that were not reported on the BOE-100-B. The assessor has not had any late-filings of BOE-100-Bs in recent years and, therefore, has not

⁷ Effective January 1, 2012, Senate Bill 507 (Stats. 2011, ch. 708) amends the filing requirement in section 482(b) from 45 days to 90 days for a person or legal entity to report a change in control or change in ownership, or to comply with a written request from the BOE, whichever occurs earlier.

applied any penalties for late-filings. We have no recommendations for the assessor's LEOP program.

Change in Ownership Exclusions – Section 63.1

Section 63.1 generally excludes from the definition of "change in ownership" the purchase or transfer of principal residences and the first \$1 million of other real property between parents and children. Section 63.1 also excludes qualifying purchases or transfers from grandparents to their grandchildren.

To enforce the \$1 million limit for property other than principal residences, the BOE maintains a database that lists transfers of such property statewide. To further the state and local interests served by tracking these transfers, section 63.1 encourages county assessors to report such transfers to the BOE on a quarterly basis. The quarterly reporting, which was formerly mandatory, is now optional. However, if an assessor opts not to report quarterly to the BOE, the assessor must track such transfers internally to be in compliance with section 63.1.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any transferors who have exceeded their \$1 million limit. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Applications regarding exclusions are available to the public at the assessor's office and on the assessor's website. The following table represents section 63.1 claims filed and granted in recent years:

YEAR	SECTION 63.1 CLAIMS FILED	SECTION 63.1 CLAIMS GRANTED
2012-13	330	318
2011-12	282	252
2010-11	259	231
2009-10	251	218
2008-09	290	265

The assessor is proactive in notifying taxpayers of a possible exclusion when a PCOR or COS indicates that a transfer may be between parent(s) and child(ren) or from grandparent(s) to grandchild(ren). The assessor will send a claim form and cover letter to the property owner advising of a possible exclusion from reassessment. A senior assessment technician tracks the claim form using a computer spreadsheet. If there is no response within 15 days, a second claim form is sent allowing the property owner an additional 15 days to respond. After a total of 30 days have passed without a response, the transfer is processed and sent to the appropriate appraiser for valuation.

A senior assessment technician reviews all section 63.1 applications and determines if the exclusion will be granted or denied. If a claim is denied, the only notification the property owner receives is the notice of supplemental assessment after the property is reassessed.

The assessor submits optional quarterly reports to the BOE listing approved section 63.1 transfer exclusions involving property other than the transferor's principal residence. When the assessor receives a *Report of Transferors Exceeding \$1,000,000* from the BOE, the report is reviewed to determine if property in Tuolumne County has exceeded the limit. If multiple properties transfer on the same date, the assessor allows the property owner or representative to determine which properties to exclude and which to reassess. If properties exceeding the limit also include properties located in other counties, the assessor contacts the property owner to determine how the property owner would like to have the excess allocated and which properties to reassess.

Pursuant to section 63.1(i), the assessor protects confidential information furnished on claim forms by keeping all claim forms in a secure file not accessible to the public.

We reviewed several section 63.1 claim forms and found them to be properly handled.

Change in Ownership Exclusions – Section 69.5

Section 69.5 generally allows persons 55 years of age or older, or who are severely and permanently disabled, to transfer the base year value of a principal residence to a replacement residence of equal or lesser value located within the same county. A county board of supervisors may provide by ordinance that base year values may be transferred from properties located outside the county.

In general, a person may claim relief under section 69.5 only once during their lifetime. To prevent improper multiple claims for this relief, section 69.5 requires county assessors to report to the BOE, on a quarterly basis, any approved section 69.5 claims.

The BOE uses the information received by assessors to generate quarterly reports notifying assessors of any improper multiple claims. With this information, assessors are able to identify ineligible claims and, if necessary, take corrective action.

Tuolumne County does not accept base year value transfers from other counties. Applications regarding exclusions are available to the public at the assessor's office and on the assessor's website.

The following table represents section 69.5 claims filed and granted in recent years:

YEAR	SECTION 69.5 CLAIMS FILED	SECTION 69.5 CLAIMS GRANTED
2012-13	4	2
2011-12	5	1
2010-11	2	2
2009-10	15	6
2008-09	6	6

If a PCOR or COS indicates that a transfer may involve a base year value exclusion, the assessor sends interested parties a claim form, along with a cover letter explaining the exclusion. After initial review by a senior assessment technician, submitted claim forms are routed to an appraiser to determine the fair market value of both the replacement and original properties, and to determine whether the property values meet the exclusion requirements before accepting or denying the claim. The assistant assessor reviews all approved and denied claim forms. If a claim is denied, the only notification the property owner receives is the notice of supplemental assessment after the property is reassessed.

The assessor submits required quarterly reports to the BOE listing approved section 69.5 exclusions. When the assessor receives a Duplicate SSN Report from the BOE, the report is reviewed in order to determine if any claims made in Tuolumne County are subject to reassessment due to a duplicate filing.

Pursuant to section 69.5(n), the assessor protects confidential information furnished on the claim forms by keeping them in a secure file not accessible to the public.

We reviewed several section 69.5 claim forms and found them to be properly handled.

Valuation

Once a transfer has been determined to be a reappraisable event, the information is sent to an appraiser for valuation. Every reappraisable transfer is reviewed to determine whether the reported purchase price reflects current market value. The assistant assessor reviews all reappraisable transfer valuations prior to value enrollment. We reviewed several property records having recently experienced a change in ownership. We found an area in need of improvement when valuing properties due to a change in ownership.

RECOMMENDATION 3: Improve the change in ownership program by providing documentation to support enrolling the purchase price as current market value.

We found that the assessor does not provide documentation or sales data in the property record to support enrolling the purchase price as current market value for a reappraisable transfer. For those reappraisable transfers with a reported purchase price on the corresponding PCOR, it is the

assessor's current practice to enroll the reported purchase price in accordance with Rule 2, without providing any supporting documentation to indicate that the purchase price reflects current market value, as long as the purchase was through a broker and on the open market.

Rule 2(a) provides that full cash value or fair market value means the price at which a property, if exposed for sale in the open market with a reasonable time for the seller to find a purchaser, would transfer for cash or its equivalent under prevailing market conditions. Rule 2(b) provides that when valuing real property as the result of a change in ownership for consideration, it shall be rebuttably presumed that the consideration paid shall be the full cash value of the property, unless a preponderance of the evidence shows that the full cash value of the property is significantly higher or lower than the consideration paid. A significant deviation means a deviation of more than 5 percent of the total consideration.

The assessor should confirm that the reported purchase price represents current market value before enrolling it as such. Providing documentation in the property record, such as comparable sales or other sales data, to confirm that the purchase price reflects market value is a good business practice. Without reviewing comparable sales or other sales data in the market, the assessor would be unable to make that determination with certainty that the reported purchase price represents current market value. In addition, documentation supporting the value conclusion is a necessary element of any appraisal. It is standard appraisal practice to document in the property record the data used to determine market value conclusions. Proper documentation not only facilitates appraisal review, but also provides the means with which to defend values. By not adequately documenting appraisal records, the assessor's value conclusions, even if correct, may not be fully understood by taxpayers or other appraisers.

Improvement Bonds

Improvement bonds are instruments used to finance construction of public improvements, including sewers, sidewalks, lighting, and water lines. Such public improvements generally enhance the land value of privately owned real property. Land directly benefiting from such improvements is pledged as security for payment of the construction loan. The improvement bond is a lien that runs with the land and binds the owner and all successors in interest in accordance with the 1911 or 1915 Bond Acts.

Section 110(b) provides a rebuttable presumption that the value of improvements financed by the proceeds of an assessment resulting in a lien imposed on the property by a public entity is reflected in the total consideration paid for a property exclusive of the lien amount. An assessor can overcome this presumption by a preponderance of evidence that all or a portion of the value of those improvements is not reflected in that consideration.

Tuolumne County has one bond district, which is comprised of 109 parcels. Presently, only 18 of those 109 parcels are still encumbered by outstanding 1915 improvement bonds. In accordance with section 163, entities receiving revenue derived from payments created by an improvement bond annually notify the assessor of required statistics. The assessor does not maintain a bond study or regression analysis. It is the assessor's policy not to add any amount to the reported purchase price for improvement bonds, since it is presumed that the bond amount is included in

the purchase price unless market conditions prove otherwise. This is consistent with the requirements of section 110(b).

New Construction

Section 70 defines newly constructed property, or new construction, as (1) any addition to real property since the last lien date, or (2) any alteration of land or improvements since the last lien date that constitutes a major rehabilitation of the property or converts the property to a different use. Further, section 70 establishes that any rehabilitation, renovation, or modernization that converts an improvement to the substantial equivalent of a new improvement, constitutes a major rehabilitation of the improvement. Section 71 requires the assessor to determine the full cash value of newly constructed real property on each lien date while construction is in progress and on its date of completion, and provides that the full cash value of completed new construction becomes the new base year value of the newly constructed property.

Rules 463 and 463.500 clarify the statutory provisions of sections 70 and 71, and the Assessors' Handbook Section 502, *Advanced Appraisal*, Chapter 6, provides guidance for the assessment of new construction.

There are several statutory exclusions from what constitutes new construction; sections 70(c) and (d), and sections 73 through 74.7 address these exclusions.

Discovery

In Tuolumne County, the assessor's primary means of discovering new construction is through reviewing building permits. The assessor receives building permits from two permit-issuing agencies: Tuolumne County Building and Safety Division and City of Sonora Building Department. In addition, the assessor receives permits for water wells and septic systems from the Tuolumne County Environmental Health Division. Other methods used to discover new construction include field canvassing by appraisers in their assigned areas, newspaper articles, business property statements, aerial photos, contact from taxpayers, and contact from other code compliance agencies.

The following table shows the number of building permits worked and the number of those permits that resulted in new construction assessments over recent years:

YEAR	PERMITS WORKED	NEW CONSTRUCTION ASSESSMENTS
2012-13	532	173
2011-12	505	219
2010-11	534	308
2009-10	703	476
2008-09	805	697

Permit Processing

The assessor receives all building permits from each of the permit-issuing agencies in hard copy format. Building plans and notices of completions or finals are also received from the agencies. Although not required by ordinance, the assessor's parcel number (APN) is typically listed on the permit.

The assistant assessor is responsible for reviewing all permits in order to determine whether a permit indicates assessable new construction or not. Those permits deemed not assessable are eventually discarded. Those permits indicating assessable new construction are input into the computer system and the hard copy of the permit, along with the property record file, are forwarded to the appropriate appraiser for review and valuation.

Unpermitted new construction is typically discovered by appraisers when they are field checking other new construction activity in their assigned areas. Data for unpermitted new construction is entered into the computer system upon discovery. The escaped new construction is valued and enrolled as of the date of completion, whenever possible. The assessor enrolls supplemental and escape assessments for all applicable years, as allowed by law.

Construction in Progress (CIP)

On each lien date, section 71 requires the assessor to enroll CIP at its fair market value. The assessor values new construction by estimating the full value of new construction as of the date of completion. For CIP, the appraiser must determine the completion status of new construction on each lien date and estimate the fair market value. On subsequent lien dates, if the new construction is still incomplete, the assessor must again enroll the CIP at its fair market value. This process continues until the new construction is complete, at which time the new construction is assessed at its fair market value and a base year value is assigned. We reviewed several property records involving CIP and found that the assessor is correctly valuing CIP.

Valuation

Appraisers value new construction at its full value as of the date of completion. The appraiser confirms completion of new construction through field inspections, information provided by the permit-issuing agencies, or information from the property owner.

Appraisers typically value new construction for residential properties using the cost and/or comparative sales approaches, while new construction for commercial and industrial properties is valued using the cost, comparative sales, and/or income approaches. The appraisers use a variety of sources to develop a cost indicator of value for new construction. These sources include Assessors' Handbook Section 531, *Residential Building Costs* (AH 531), Assessors' Handbook Section 534, *Rural Building Costs* (AH 534), the owner's reported costs, and *Marshall Valuation Service*. The appraiser documents the source of the cost indicator on the property record.

In order to obtain owner reported costs for new construction activity on residential properties, the assessor sends cost questionnaires to property owners that have been issued a building permit for residential new construction activity. Appraisers compare the owner's reported costs to published

cost guides to determine if these costs reflect market value. A field inspection is performed at the appraiser's discretion.

In most cases, appraisers prepare diagrams for new construction using computer drawing software; however, manually drawn diagrams are also prepared on occasion. A hard-copy of the completed drawing is placed in the property record file.

Summary

Overall, we found the assessor's new construction program to be well administered and the values to be reasonable. We reviewed several new construction property records and found CIP assessed as of the lien date, completed new construction assessed as of the date of completion, and supplemental assessments properly issued when appropriate. However, we found an area in need of improvement.

RECOMMENDATION 4: Document all building permits received for solar installations in the property record files.

It is the assessor's practice to cull and discard building permits for solar installations that are deemed to be excluded from reassessment in accordance with section 73(e). We found several examples where the assessor did not file the building permit in the property record file or document the building record to show the solar installation was completed. While the solar installation may be excluded from reassessment for the current owner, the building record should properly reflect the solar installation for future reappraisals of the property when the active solar energy system is not excluded from reassessment.

Section 73(a) provides that the term "newly constructed" does not include the construction or addition of any active solar energy for property tax purposes. Section 73(e) further provides that "the construction or addition of any active solar energy system" includes the construction of an active solar energy system incorporated by the owner-builder in the initial construction of a new building that the owner-builder does not intend to occupy or use. The exclusion from "newly constructed" applies to the initial purchaser who purchased the new building from the owner-builder, but only if the owner-builder did not receive an exclusion under this section for the same active solar energy system and only if the initial purchaser purchased the new building prior to that building becoming subject to reassessment to the owner-builder. In addition to these requirements, the initial purchaser of the building must file the proper claim form with the assessor in order to be eligible for the exclusion.

There are numerous instances, both current and future, in which the active solar energy system would not meet the qualifications for exclusion from reassessment. The assessor should document all solar installations in the building property record file in order to accurately inventory and account for all assessable items included in the property. This will aid the assessor in accurately reflecting the value of the property in future transactions. By not documenting these solar installations, even though the active solar energy system may be currently excluded from reassessment, the appraiser may be unaware of the existence of the active solar energy system when performing a future appraisal, causing an incorrect assessment to be enrolled.

While noting the active solar system installation on the property record is not required by statute, it is an integral part of proper inventory procedures and an inventory of all taxable property in the county is one of the primary duties of a county assessor. For future valuations, the data related to improvements previously excluded as new construction may aid in heightening the assessor's awareness of the value, if any, attributable to active solar systems.

In the event of a change of ownership, a recognized decline in value, or an appeals hearing, the assessor would need at hand full information about the property to properly assess the property. If there is no documentation in regards to the active solar system, the value attributable to the system may be overlooked, creating a situation that could create escapes, result in unequal treatment of taxpayers, and/or a loss of revenue to the county.

Declines in Value

Section 51 requires the assessor to enroll on the lien date an assessment that is the lesser of a property's factored base year value (FBYV) or its current full cash value, as defined in section 110. Thus, if a property's full cash value falls below its FBYV on any given lien date, the assessor must enroll that lower value. If, on a subsequent lien date, a property's full cash value rises above its FBYV, then the assessor must enroll the FBYV.

The following table shows the number of decline-in-value assessments enrolled in recent years:

YEAR	DECLINE-IN-VALUE ASSESSMENTS
2012-13	8,494
2011-12	8,210
2010-11	7,125
2009-10	5,405
2008-09	5,309

Due to unfavorable economic conditions, Tuolumne County has experienced a notable decline in property values. Consequently, there has been a significant increase in the total number of properties eligible for decline-in-value assessments. This has resulted in a large increase in the assessor's overall workload.

The assessor has been proactive in identifying and annually reviewing properties in the county that have a current market value lower than their FBYV. The assessor's primary means of discovering properties experiencing a decline in value is through taxpayer requests for an informal review and appraisers' knowledge of market conditions in their assigned geographic areas. The assessor provides information for taxpayers on his website explaining the decline-in-value review process.

Property owners may request an informal review of their assessment by completing and submitting a *Request for Property Review* form to the assessor. This form is available to the public at the assessor's office and on the assessor's website. Property owners are notified of the results of the informal review by letter.

The assessor has developed a computer program to aid in the identification and valuation of residential properties experiencing a decline in value. This program is a computer-assisted mass appraisal system. Property types deemed eligible for the assessor's declines in value computer-assisted program include residential properties having the same base year for both land and improvements, and vacant land zoned for residential properties. Properties excluded from the program include condominiums, duplexes, properties having new construction activity, rural properties with five or more acres, and properties having been involved in a partial change in ownership.

As part of the declines in value computer-assisted program process, each year the assessor calculates the median sale price from all residential sales in Tuolumne County. This annual median sale price is then compared to the prior year's median sale price, and the difference between the years is used to calculate the annual percentage of value change to be applied to the assessed value of all the residential properties experiencing a decline in value as of the lien date. In addition, this process allows the assessor to identify potential declines in value that are indicated by having an assessed value higher than the median sale price.

The assessor does not have a computer-assisted program to initially review commercial or rural properties experiencing a decline in value. These properties are initially valued on an individual basis. For rural properties, the assessor uses the cost and/or comparative sales approaches to determine current market value. For commercial properties, the cost, income, and/or comparative sales approaches are used to determine current market value. In addition, the assessor sends a letter to the property owner requesting additional information, such as income and expense data or comparable sales data, to assist the appraiser in the valuation process. For subsequent years, the assessor applies an annual percentage value change to the assessed value.

Once a property is determined to be in decline-in-value status, the property is assigned a code of "67." The assignment of this code identifies the property as being in decline-in-value status, which suspends the application of the annual inflation factor and identifies the property for annual review.

The assessor sends a *Value Notification* to property owners when their assessed value has been temporarily reduced due to a decline in value, when a reduced value remains unchanged on the roll for the current assessment year, or when the FBVYV has been fully or partially restored. The value notice includes the proposed current assessed value, the total FBVYV, and informs the property owner of their right to file an assessment appeal on the current assessed value.

We reviewed several decline-in-value assessments. The assessor has a proactive program in place to aid in the discovery of potential declines in value. However, we found an area in need of improvement.

RECOMMENDATION 5: Value all properties in decline-in-value status at current market value.

We found that the assessor applies an annual percentage value change to all properties in decline-in-value status as part of the annual review process. This percentage being applied is the same for all decline-in-value properties, regardless of property type, location, age, acreage, or

size of the structure. While we found some properties to be valued within market value range, we found numerous other properties that deviated significantly from the market value range.

Section 2(b) of article XIII A of the California Constitution requires the assessor to recognize declines in value if the current market value of the property on the lien date falls below its FBV. Section 51(a) requires the assessor, as of the lien date, to enroll the lesser of the property's FBV or its full cash value, as defined in section 110. By using a single percentage value change, which is based on residential sales, to be used on all properties currently in decline-in-value status, the assessor is not accurately determining the current market value of all decline-in-value properties. The assessor should develop a program that more accurately reflects the current market value of all decline-in-value properties by dividing the properties into groups according to property type and/or neighborhood, and determining which of those groups can be accurately valued in mass and which require individual value determinations.

The assessor's practice of applying a single annual percentage value change to all properties in decline-in-value status in order to determine current market value for the lien date does not result in accurate value determinations for all properties. Consequently, some properties may be overassessed, while others are underassessed, which leads to incorrect assessments and unequal treatment of taxpayers.

California Land Conservation Act Property

Pursuant to the California Land Conservation Act (CLCA) of 1965, agricultural preserves may be established by a city or county for the purpose of identifying areas within which the city or county will enter into agricultural preserve contracts with property owners.

Property owners who place their lands under contract agree to restrict the use of such lands to agriculture and other compatible uses; in exchange, the lands are assessed at a restricted value. Lands under contract are valued for property tax purposes by a method that is based upon agricultural income-producing ability (including income derived from compatible uses, for example, hunting rights and communications facilities). Although such lands must be assessed at the lowest of the restricted value, current market value, or factored base year value, the restricted value typically is the lowest.

Sections 421 through 430.5 prescribe the method of assessment for land subject to agricultural preserve contracts. Assessors' Handbook Section 521, *Assessment of Agricultural and Open-Space Properties* (AH 521), provides guidance for the appraisal of these properties.

For the 2012-13 roll year, Tuolumne County had 951 parcels encumbered by CLCA contracts, encompassing 121,836 acres. The total assessed value for land and improvements was \$134,568,979. Included in these statistics were 236 parcels totaling 15,720 acres in nonrenewal status. There have been no contracts cancelled in recent years.

In Tuolumne County, the gross agricultural production value for 2012 was approximately \$29,968,000. This represents a 2.5 percent increase from the 2011 value of \$29,238,000. The top five crops by value in Tuolumne County for 2012 were livestock and poultry, timber harvested, field crops, miscellaneous fruits and vegetables, and apiary and nursery products.

In Tuolumne County, the assessor utilizes an automated computer system to value restricted properties. Each year, the assistant assessor updates the income and expense data and enters it into the computer system. Income and expense data is collected from a variety of sources, such as CLCA questionnaires sent to property owners and the county's annual crop report. When developing a capitalization rate to be used in the valuation process, the assistant assessor correctly includes the current interest component provided annually by the BOE, a risk component, and a property tax component. Once all of the necessary data is input into the computer system, the computer automatically calculates the restricted value of each property under CLCA contract.

For properties under CLCA contract involving a change in ownership or completed new construction, the appraiser of the assigned area establishes the base year value of the property as if unrestricted, while the assistant assessor determines the value for the restricted portions of the property. Property that is not restricted by the terms of a CLCA contract, such as a residence, is enrolled at the lower of its factored base year value or current market value in accordance with section 428. Supplemental assessments are properly calculated and issued for unrestricted land and improvements, when appropriate.

Our review of the assessor's CLCA program also found that properties in nonrenewal status were valued correctly in accordance with section 426. We did, however, find an area in need of improvement.

RECOMMENDATION 6: Improve the CLCA property program by using an appropriate income stream for capitalizing restricted tree and vine income.

We found that the assessor uses a constant-terminal income premise when appraising vineyards and orchards without respect to the age or stage of production of the vineyard or orchard.

AH 521 describes the procedure for capitalizing tree and vine income. The appropriate method depends primarily on the shape of the anticipated income stream. The shape of the income stream of all living improvements is similar: (1) a period of development when production (income stream) initiates and rises, (2) a period of maturity when production remains relatively stable, and (3) a period of decline when production drops as the improvements near the end of their economic lives. Since the probable future income stream is irregular, the most accurate method of valuing living improvements is to estimate the present worth of each future year of (irregular) income by using the discounted cash flow method.

Not recognizing the future shape of the income stream in the capitalization process may result in incorrect assessments of trees and vines.

Taxable Possessory Interests

A taxable possessory interest results from the possession, a right to possession, or a claim to a right to possession of publicly-owned real property, in which the possession provides a private benefit to the possessor and is independent, durable, and exclusive of rights held by others. The assessment of a taxable possessory interest in tax-exempt publicly owned property is based on

the value of the rights held by the possessor; the value of the rights retained by the public owner is almost always tax exempt.

For the 2012-13 roll year, the assessor enrolled 968 taxable possessory interests with a total assessed value of \$101,385,914. These interests are located on property owned by 17 public agencies. Examples of taxable possessory interests in Tuolumne County include employee housing, hangars at public airports, grazing permits, cabins located on United States Forest Service (USFS) lands, concessionaires at county fairgrounds, cable television franchises, rafting permits, and houseboat permits. Taxable possessory interests are assessed on both the secured and unsecured rolls. The assessment roll correctly shows the name of the specific local, state, or federal agency that holds title to the real property where the taxable possessory interest is situated.

The assistant assessor is responsible for the discovery and assessment of all taxable possessory interests in Tuolumne County, with the exception of houseboat permits, which are the responsibility of the auditor-appraiser. As part of the discovery process, the assistant assessor sends a form letter to all 17 public agencies owning real property in Tuolumne County on an annual basis.

The assessor maintains appraisal records for each taxable possessory interest. The records contain the names of the lessee, the fee owner or public agency, the taxable possessory interest assessment number, the assessor's parcel number of the underlying parcel, a description of the use, the base year, the base year value, the term of possession used by the assessor to establish the base year value, a tenant history, and value calculations. This information assists the assessor in identifying when a change in ownership occurred due to a creation, renewal, extension, or assignment of a taxable possessory interest. Hard copies of the appraisal record are maintained in individual property folders, and an electronic copy of the appraisal record is available through the assessor's computer system.

The primary method of valuation used by the assessor to value taxable possessory interests is the income approach-direct method. The assessor also uses the comparative sales approach-direct method when valuing cabins located on USFS lands.

We reviewed several taxable possessory interest assessments and found areas in need of improvement.

RECOMMENDATION 7: Improve the taxable possessory interests program by:
(1) using Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*,
(2) considering market rents in the value determination of taxable possessory interests, (3) assessing all taxable possessory interests located at the fairgrounds that do not meet the requirements of the low-value property exemption, (4) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach-direct method, (5) reappraising taxable possessory interests in compliance with section 61(b)(2), and (6) properly issuing supplemental assessments for taxable possessory interests.

Use Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*.

We found that the assessor uses a locally-developed form letter to send to public agencies each year for reporting taxable possessory interests in lieu of Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*, which was developed and prescribed by the BOE for this purpose. Letter To Assessors (LTA) No. 2011/019 provides a copy of the revised BOE-502-P, and discusses the revisions and intended use of this Board-prescribed form.

Section 480.6 provides that every state or local governmental entity that is the fee owner of real property in which one or more taxable possessory interests have been created shall either file any preliminary change in ownership report or change in ownership statement otherwise required to be filed with respect to any renewal of a possessory interest, or annually file with the county assessor, no later than the 15th day of the first month following the month in which the lien date occurs, a real property usage report. Government Code section 15606(d) requires the BOE to prescribe and enforce the use of all forms for the assessment of property for taxation. In addition, LTA No. 2004/049 advises that an assessor may not use a locally-developed form if there is a Board-prescribed form available. Since the BOE has developed and prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*, to be used to meet the reporting requirements of section 480.6, the assessor must use this form.

The assessor's practice of using a locally-developed form letter in-lieu of a Board-prescribed form is contrary to regulation.

Consider market rents in the value determination of taxable possessory interests.

We found that for certain taxable possessory interests, the assessor is incorrectly estimating the value by using the stated minimum contract rent as current market rent rather than the percentage rent provided for in the lease contract. We found several instances in which the public agency provided a history of the possessors' monthly gross receipts and percentage rents, clearly showing that the percentage rent has been consistently higher than the minimum contract rent over the past several years. Under such circumstances, the percentage rent is a better indicator of current market rent than the minimum contract rent.

For example, in one instance, a lease contract provided that the tenant was to pay \$200 per month as minimum rent or 3.0 percent of the tenant's monthly gross receipts as percentage rent, whichever is greater. The assessor used the minimum rent of \$2,400 as the annual market rent, even though the percentage rent based on gross receipts for 2009-10 showed an actual yearly rent of \$4,939 and for 2010-11 an actual yearly rent of \$4,977. Based on this data, the assessor could reasonably estimate a current market rent above the minimum contract rent of \$2,400 per year.

Rule 21(e)(3)(C)(a) provides, in part, that the economic rent of the subject taxable possessory interest may be estimated by reference to (1) the contract rent for the subject taxable possessory interest, (2) contract rents for comparable taxable possessory interests, (3) contract rents for comparable fee simple absolute fee interests in real property, or (4) contract rents for other comparable interests in real property. When using a contract rent as specified in the lease agreement as economic rent to value a taxable possessory interest, the assessor should recognize and determine whether using the minimum contract rent is appropriate or whether there is enough evidence to support using a percentage rent as current market rent instead.

In addition, Rule 8(b) provides that when using the income approach, an appraiser values an income property by computing the present worth of a future income stream and that the present worth depends upon the size, shape, and duration of the estimated income stream. The appraiser must consider the pattern of the income stream, which may be level, variable or irregular, straight-line (constant amount) change per period, or exponential-curve (constant-ratio) change per period. A lease may also include rent escalations written into the agreement and such escalations should also be reflected in the expected income stream when appropriate.

By not taking into consideration the percentage rent of the taxable possessory interest and only using the minimum contract rent for value determination, the assessing may be using rents that do not reflect current market, resulting in incorrect assessments.

Assess all taxable possessory interests located at the fairgrounds that do not meet the requirements of the low-value property exemption.

We found that the assessor does not track potential taxable possessory interests located at the fairgrounds. While the assessor sends the fairgrounds an annual form letter requesting information on any potential taxable possessory interests they might have, the fairgrounds does not respond to the assessor's request and no further attempt is made to collect this information. During our review, we found evidence of recurring uses at the fairgrounds that appear to be taxable possessory interests valued above the county's low-value resolution. Since the assessor does not track any potential taxable possessory interests at the fairgrounds, he is unable to determine whether the possessory interests fall within the low-value exemption range or not.

On February 2, 1988, the Tuolumne County Board of Supervisors adopted Resolution No. 26-88, which is a low-value property exemption for any and all property with a full value of \$2,000 or less on the unsecured roll. This resolution was later amended on March 2, 1993, by Resolution No. 28-93, to include mobilehome accessories with a base year value or full value of \$5,000 or less. The low-value property exemption does not exempt any taxable possessory interests on the secured roll nor does it exempt taxable possessory interests with a full value over \$2,000 on the unsecured roll.

The assessor's practice of not tracking potential taxable possessory interests at the fairgrounds may result in escaped assessments and the assessor should make every effort to obtain the necessary information in order to properly value these taxable possessory interests.

Deduct allowed expenses from gross income when valuing taxable possessory interests by the income approach-direct method.

When valuing taxable possessory interests using the income approach-direct method, the assessor is not making deductions from the gross rent for management and other operating expenses incurred by the public lessor.

Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), provides that allowed expenses paid by the public owner should be deducted from the estimated economic rent. Rule 21(e)(3)(C) provides that the income to be capitalized in the valuation of a taxable possessory interest is the "net return" (as defined in subsection (c) of Rule 8) attributable to the taxable possessory interest.

A public owner will incur at least some management expense with each taxable possessory interest. Some lease agreements may require the public owner to pay for insurance, maintenance, or utilities. By not recognizing these allowable expenses and subtracting them from the gross income, the assessor may be overstating the value of these taxable possessory interests.

Reappraise taxable possessory interests in compliance with section 61(b)(2).

We found several instances where the assessor failed to reappraise taxable possessory interests at the end of the reasonably anticipated term of possession used by the assessor to initially value the taxable possessory interest. Instead, the assessor enrolled the factored base year value.

Section 61(b) provides that a change in ownership, as defined in section 60, includes the creation, renewal, extension, or assignment of a taxable possessory interest in tax exempt real property for any term. Further, section 61(b)(2) provides that in the case of a renewal or extension, the assessor shall, at the end of the initial term of possession used by the assessor to value the taxable possessory interest, establish a new base year value based upon a new reasonably anticipated term of possession.

By not revaluing taxable possessory interests at the end of the reasonably anticipated term of possession, the assessor is not in compliance with statutory provisions and may enroll incorrect assessments.

Properly issue supplemental assessments for taxable possessory interests.

We found that the assessor does not issue supplemental assessments for taxable possessory interests that are enrolled on the unsecured roll. The assessor indicated that their computer system does not allow supplemental assessments to be issued for property on the unsecured roll. In addition, we found that for those taxable possessory interests enrolled on the secured roll, the assessor is correctly issuing supplemental assessments when warranted; however, the assessor is incorrectly calculating the supplemental assessment for newly created taxable possessory interests by offsetting the new base year value against the prior year's assessed value.

Taxable possessory interests, like other real property, are subject to supplemental assessments whenever there is a change in ownership or completed new construction. Section 61(b) provides that the creation, renewal, extension, or assignment of a taxable possessory interest is a change in ownership. Section 75.11 provides that there shall be a supplemental assessment following a change in ownership or completion of new construction. In addition, Assessors' Handbook Section 510, *Assessment of Taxable Possessory Interests* (AH 510), advises that the supplemental assessment amount for a newly created taxable possessory interest should be based on its fair market value without offset for a prior value on the regular assessment roll.

The assessor's failure to properly issue supplemental assessments is contrary to statute and results in unequal treatment of taxpayers.

Mineral Property

By statute and case law, mineral properties are taxable as real property. They are subject to the same laws and appraisal methodology as all real property in the state. However, there are three mineral-specific property tax rules that apply to the assessment of mineral properties. They are Rule 468, *Oil and Gas Producing Properties*, Rule 469, *Mining Properties*, and Rule 473, *Geothermal Properties*. These rules are interpretations of existing statutes and case law with respect to the assessment of mineral properties.

Unpatented Mining Claims

Tuolumne County has several hundred unpatented mining claims. The assessor uses a reasonably anticipated term of possession of one year to value these claims. The assessor tracks the sales of unpatented mining claims in order to utilize these sales as comparables in the valuation of other unpatented mining claims. We have no recommendations regarding unpatented mining claims in Tuolumne County.

Mining Property

There are two active mining properties located in Tuolumne County. These two properties have extensive reserves, especially when compared to the annual production from these properties. Low demand for fresh product and the availability of recycled material contributes to limited extraction of material from these properties. Due to the low production in comparison to the reserves, there is little change in the factored base year values of these two mining properties from year to year.

RECOMMENDATION 8: Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

We could find no indication in the assessor's mineral property appraisal records that the assessor considers the value of the entire appraisal unit when determining whether to enroll the adjusted base year value or the current market value of the mineral property as required by Rule 469(e)(2)(C).

For most properties, fixtures are treated as a separate appraisal unit for the purpose of determining a decline in value. Mineral properties, however, are treated differently.

Rule 469(e)(2)(C) specifically defines the appraisal unit of a mineral property to include land, improvements (including fixtures), and reserves. The assessor should use this unit for the purpose of measuring a possible decline in value. To properly determine the value to be enrolled, the assessor should compare the current market value of the entire appraisal unit to the adjusted base year value of this same appraisal unit, and enroll the lower of the two values.

Failure to properly determine the decline in value of a mineral property using the entire mineral property appraisal unit could result in an underassessment of the improvements (including fixtures) or an overassessment of the mineral rights.

ASSESSMENT OF PERSONAL PROPERTY AND FIXTURES

The assessor's program for assessing personal property and fixtures includes the following major elements:

- Discovery and classification of taxable personal property and fixtures.
- Mailing and processing of annual property statements and questionnaires.
- Annual revaluation of taxable personal property and fixtures.
- Auditing taxpayers whose assessments are based on information provided in property statements.

In this section of the survey report, we review the assessor's audit, business property statement, business equipment valuation, manufactured homes, aircraft, and vessels programs.

Audit Program

A comprehensive audit program is essential to the successful administration of any tax program that relies on information supplied by taxpayers. A good audit program discourages deliberate underreporting, helps educate those property owners who unintentionally misreport, and provides the assessor with additional information to make fair and accurate assessments.

Prior to January 1, 2009, section 469 required county assessors to audit at least once every four years the books and records of any taxpayer engaged in a profession, trade, or business if the taxpayer had assessable trade fixtures and business tangible personal property valued at \$400,000 or more. These statutorily required audits are commonly referred to as mandatory audits. Additionally, a county assessor may audit the books and records of taxpayers with holdings below \$400,000 in value under the authority of section 470. These audits are referred to as nonmandatory audits. Generally, county assessors perform both mandatory and nonmandatory audits to ensure that their audit program includes a representative sample of all sizes and types of property taxpayers with personal property holdings subject to the property tax.

Effective January 1, 2009, county assessors are no longer required to audit all taxpayers with trade fixture and business tangible personal property holdings of \$400,000 or more at least once every four years. Instead, the county assessor is required to annually audit a significant number of audits as specified in section 469. The significant number of audits required is at least 75 percent of the fiscal year average of the total number of mandatory audits the assessor was required to have conducted during the 2002-03 fiscal year to the 2005-06 fiscal year, with at least 50 percent of those to be selected from a pool of those taxpayers with the largest assessments. Thus, while section 469 still mandates a certain level of audits that must be performed annually, assessors now have some flexibility in determining which accounts will comprise this mandated workload.

In Tuolumne County, the audit responsibility falls upon one auditor-appraiser.

As noted previously, effective January 1, 2009, section 469 specifies a minimum audit workload. Rule 192 prescribes the computation establishing minimum required audit production and provides the basis for the audit selection process. According to Letter To Assessors No. 2009/049, the amended statute requires the assessor to complete eight audits per year. However, we found that no audits have been completed in recent years.

RECOMMENDATION 9: Perform the minimum number of audits of professions, trades, and businesses pursuant to section 469.

The assessor failed to conduct the minimum number of audits required under the provisions of section 469.

An effective audit program verifies the reporting of various business property accounts, from small to large, and helps prevent potential errors or escape assessments. An audit program is an essential component of an equitably administered assessment program. A weak audit program can leave a business property assessment program with no means of verifying the accuracy of taxpayer reporting or correcting noncompliant reporting practices. Furthermore, experience shows that when audits are not conducted timely, it is more difficult to obtain the records necessary to substantiate accurate reporting the further removed the audit is from the year being audited. Therefore, timeliness of the audit is an important factor in an effective audit program and ultimately a well managed assessment program.

By failing to conduct a significant number of audits in a timely manner, the assessor is not in compliance with section 469 and risks the possibility of allowing taxable property to permanently escape assessment.

Statute of Limitations

Section 532 provides that when the assessor discovers through an audit that property has escaped assessment, an assessment of such property must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time period, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

RECOMMENDATION 10: Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

The assessor does not request waivers of the statute of limitations on all scheduled audits that will not be completed timely.

Section 532 provides that assessments must be enrolled within four years after July 1 of the assessment year during which the property escaped assessment. If the assessor cannot complete an audit within the prescribed time, the assessor may request, pursuant to section 532.1, a waiver of the statute of limitations from the taxpayer to extend the time for making an assessment.

A waiver of this nature protects the taxpayer during the audit process should an overassessment be discovered and allows the assessor to enroll an escape assessment if a reporting deficiency is

found. By failing to obtain waivers, the assessor may allow taxable property to escape assessment should the statute of limitations expire prior to the completion of the audit.

Business Property Statement Program

Section 441 requires that each person owning taxable personal property (other than a manufactured home) having an aggregate cost of \$100,000 or more annually file a business property statement (BPS) with the assessor; other persons must file a BPS if requested by the assessor. Property statements form the backbone of the business property assessment program. Several variants of the BPS address a variety of property types, including commercial, industrial, agricultural, vessels, and certificated aircraft.

Workload

The following table displays the assessor's workload of secured and unsecured BPSs for the 2012-13 roll year:

TYPE OF PROPERTY STATEMENTS	SECURED ASSESSMENTS	UNSECURED ASSESSMENTS	TOTAL ASSESSMENTS
General Business	448	1,182	1,630
Agricultural	48	12	60
Apartments	23	0	23
Financial	4	17	21
Leased Equipment	0	124	124
Other	1	0	1
Totals	524	1,335	1,859

Discovery

The assessor utilizes a number of available resources for discovering taxable business property. In addition to taxpayer self-reporting, the assessor reviews city and county business licenses, fictitious business name filings, business directory services, real property appraiser referrals, landlord reports of tenants, sales tax permits, and BOE notifications. We found that the assessor employs effective methods for discovering business personal property.

General Statement Processing

BPSs are first reviewed by support staff for completeness, timeliness of submittal, and the inclusion of an authorized signature. BPSs are date stamped and entered into the computer system before being forwarded to the auditor-appraiser for valuation. Incomplete BPSs, or those submitted without an authorized signature, are returned to the property owner, along with a letter indicating the reason the statement is being returned. The assessor's computer system automatically applies a section 463 penalty to all accounts reflecting statements that were either not submitted or were submitted subsequent to the statutory deadline of May 7.

Findings

We reviewed all major aspects of the assessor's BPS program, including processing procedures, use of Board-prescribed forms, application of penalties, coordination with the real property division, and record storage and retention. In addition, we reviewed several recently processed BPSs. We found in all observed cases that BPSs accepted by the assessor evidenced the proper usage of Board-prescribed forms, were completed in sufficient detail, and were properly signed.

We found the assessor's business property statement program to be properly administered and we have no recommendations for this program.

Business Equipment Valuation

Assessors value most machinery and equipment using business property valuation factors. Some valuation factors are derived by combining price index factors with percent good factors, while other valuation factors result from valuation studies. A value indicator is obtained by multiplying a property's historical cost by an appropriate value factor.

Section 401.5 provides that the BOE shall issue information that promotes uniformity in appraisal practices and assessed values. Pursuant to that mandate, the BOE annually publishes Assessors' Handbook Section 581, *Equipment and Fixtures Index, Percent Good and Valuation Factors* (AH 581).

The assessor values assessable equipment using price index factors that are based on equipment index and percent good factors published in AH 581 and the California Assessors' Association's (CAA) business assessment factors. When there is good and compelling information available regarding equipment values that deviate from published equipment factor tables, that information is utilized by the assessor if it provides a better indicator of value.

We reviewed a variety of business equipment assessments, including retail businesses, service businesses, industrial operations, and farming operations. We found that the assessor uses acceptable methods of valuing business equipment.

We have no recommendations for the assessor's business equipment valuation program.

Manufactured Homes

A "manufactured home" is defined in Health and Safety Code section 18007, and statutes prescribing the method of assessing manufactured homes are contained in sections 5800 through 5842. A manufactured home is subject to local property taxation if sold new on or after July 1, 1980, or if its owner requests conversion from the vehicle license fee to local property taxation. Manufactured homes should be classified as personal property and enrolled on the secured roll.

In Tuolumne County, there were 1,997 manufactured homes enrolled for the 2012-13 roll year, with a total assessed value of \$47,270,003. There are 32 mobilehome parks in Tuolumne County, one of which is a resident-owned park. Manufactured homes in Tuolumne County are valued by the appraiser of the geographical area in which the manufactured home is located.

The assessor classifies manufactured homes as fixtures and enrolls them on the secured roll. Manufactured homes located within a mobilehome park are identified by the assessor's parcel map book and page in which the park is located, with the space number being identified as the parcel. Manufactured homes on leased land outside of a mobilehome park are identified by the assessor's parcel number (APN) of the land the manufactured home is located on and followed by a "01" or a "02," identifying each manufactured home located on the parcel. These manufactured homes located in mobilehome parks or on leased land are further identified with a use code of "89." For those manufactured homes located on land owned in fee, they are simply identified by the APN of the land owned in fee. For manufactured homes situated on an approved permanent foundation system, they are reclassified as real property.

The assessor discovers assessable manufactured homes through information received from the Department of Housing and Community Development (HCD), dealer reports of sale, building permits, and field canvassing.

The assessor uses the National Automobile Dealers Association *Manufactured Housing Cost Guide* (NADA) when determining the full cash value of a manufactured home on rented or leased land. The assessor also takes into consideration the sale price of the manufactured home, when available. Supplemental assessments are correctly issued when appropriate.

Section 5813 requires that manufactured homes be assessed at the lesser of the factored base year value or current market value. Currently, the assessor does not have a program in place to periodically review the assessments of manufactured homes for possible declines in value. In addition, the assessor does not track the factored base year value of a manufactured home once it is enrolled due to a change in ownership. Once the value is enrolled, it remains stagnant on the roll until another change in ownership takes place. Further, the assessor does not always acknowledge when a change in ownership takes place and, as a result, sometimes fails to change the title of record and/or reappraise the manufactured home.

We reviewed several manufactured home assessments, including transfers, supplemental assessments, accessories, new construction, and new installations. We found areas in need of improvement.

RECOMMENDATION 11: Improve the manufactured homes program by:
(1) periodically reviewing manufactured home assessments for declines in value, and (2) reassessing all manufactured homes that are involved in a change in ownership.

Periodically review manufactured home assessments for declines in value.

The assessor does not currently have a program in place to discover declines in value of manufactured homes. When a change in ownership occurs for a manufactured home, the assessor determines the value of the manufactured home and enrolls the value as a fixture on the secured roll. The enrolled value then remains stagnant on the roll until another change in ownership occurs or the property owner requests an informal review of their current assessed value. No

inflation factor is applied to the base year value for subsequent years and the manufactured home is never reviewed for a potential decline in value unless requested by the property owner.

Section 5813 provides that the taxable value of a manufactured home shall be the lesser of its base year value, compounded by the annual inflation factor, or its full cash value, as determined pursuant to section 110, as of the lien date, taking into account reductions in value due to damage, destruction, depreciation, obsolescence, or other factors causing a decline in value. Additionally, section 51(e) provides that once the base year value of real property is lowered to reflect a decline in value, it must be annually reappraised until its market value once again exceeds the factored base year value.

Although not required to reappraise all properties each year, the assessor should develop a program to periodically review the assessments of manufactured homes to ensure declines in value are recognized accurately and consistently. The assessor is required by statute to enroll the lesser of factored base year value or current market value for the manufactured home as of the lien date. By initially enrolling the base year value and letting that value remain stagnant on the roll, in which case the value is neither the factored base year value nor the current market value of the manufactured home, the assessor is not in compliance with statute and may be overassessing certain manufactured homes.

Reassess all manufactured homes that are involved in a change in ownership.

We found several instances where the assessor failed to reassess a manufactured home due to a change in ownership, even though the assessor had documentation in the file reflecting that a change in ownership had occurred. In some instances, the assessor correctly changed the current ownership on title to reflect the new owners, but failed to reassess the manufactured home. In other instances, the assessor failed to change the current ownership and failed to reassess the manufactured home.

Section 60 defines a change in ownership as a transfer of a present interest in real property, including the beneficial use thereof, the value of which is substantially equal to the value of the fee interest. Section 61 gives the specific types of transfers resulting in changes in ownership; however, most changes in ownership of manufactured homes involve a transfer of 100 percent of the interest in the manufactured home. Section 5802 defines the base year value of a manufactured home as the full cash value on the date the manufactured home is purchased or changes ownership.

By not reassessing these manufactured homes for changes in ownership, the assessor is allowing certain manufactured homes to escape reassessment, causing incorrect assessments to be enrolled and taxpayers to be treated inequitably.

Aircraft

General Aircraft

General aircraft are privately owned aircraft that are used for pleasure or business, but that are not authorized to carry passengers, mail, or freight on a commercial basis. Section 5363 requires the assessor to determine the market value of all aircraft according to standards and guidelines

prescribed by the BOE. Section 5364 requires the BOE to establish such standards. On January 10, 1997, the BOE approved the *Aircraft Bluebook-Price Digest (Bluebook)* as the primary guide for valuing aircraft with the *Vref Aircraft Value Reference (Vref)* as an alternative guide for aircraft not listed in the *Bluebook*.

For the 2012-13 roll year, the assessor enrolled 154 general aircraft with a total assessed value of \$12,224,765. The auditor-appraiser is responsible for all aspects involved in the valuation of general aircraft.

Aircraft are discovered through airport operators' reports, Federal Aviation Administration (FAA) reports, and referrals from other counties.

Each year, the assessor mails BOE-577, *Aircraft Property Statement*, to the known aircraft owners in the county requesting current information on all aircraft. The form requests the owner to report engine information, air hours since the last major overhaul, airframe time, avionics equipment, overall condition, current situs information, and transfer information if applicable. The aircraft statement indicates a filing due date of April 1, and the assessor imposes a 10 percent penalty for failure to file and late-filings of the aircraft statement.

The auditor-appraiser reviews all aircraft property statements received. Aircraft are valued using *Bluebook* as the primary valuation guide. *Bluebook* values are properly adjusted for sales tax, overall condition of the aircraft, additional or special equipment, airframe hours, and engine hours since last major overhaul in order to estimate fair market value.

We reviewed several general aircraft records for valuation methodology, legal signatures, and the application of late or failure to file penalties pursuant to section 5367. We found that the assessor's procedures for the discovery, valuation, and assessment of general aircraft conform to statutory provisions and guidelines set forth in Assessors' Handbook 577, *Assessment of General Aircraft* (AH 577).

We have no recommendations for the general aircraft program.

Historical Aircraft

Aircraft of historical significance can be exempted from taxation if they meet certain requirements. Section 220.5 defines "aircraft of historical significance" as: (1) an aircraft that is an original, restored, or replica of a heavier than air powered aircraft 35 years or older; or (2) any aircraft of a type or model of which there are fewer than five such aircraft known to exist worldwide.

The historical aircraft exemption is not automatic. Each year, the owner of a historical aircraft must submit an affidavit on or before 5:00 p.m., February 15, paying a filing fee of \$35 upon the initial application for exemption. Along with these requirements, aircraft of historical significance are exempt only if the following conditions are met: (1) the assessee is an individual owner who does not hold the aircraft primarily for purposes of sale; (2) the assessee does not use the aircraft for commercial purposes or general transportation; and (3) the aircraft was available

for display to the public at least 12 days during the 12-month period immediately preceding the lien date for the year for which the exemption is claimed.

For the 2012-13 roll year, there were 24 historical aircraft with a total exempted value of \$701,864.

We reviewed several historical aircraft assessments and exemption claims. We found that the assessor properly obtained signed affidavits in Board-prescribed format and certification of attendance pursuant to section 220.5. The assessor properly granted the exemption when the statutory requirements were met.

We have no recommendations for the historical aircraft program.

Vessels

The primary sources used for the discovery of assessable vessels include reports from the State Department of Motor Vehicles (DMV), referrals from other counties, information provided by the vessel owners themselves, certificates of documentation issued by the United States Coast Guard, harbormasters' reports, and field canvassing.

In Tuolumne County, it is the responsibility of the auditor-appraiser to process vessel property statements and perform vessel assessment duties. The primary sources of discovery for vessels in Tuolumne County are DMV reports, referrals from other counties, and information from vessel owners themselves.

The following table shows the number of vessels and their total assessed values in Tuolumne County in recent years:

YEAR	PLEASURE VESSELS	ASSESSED VALUE	DOCUMENTED VESSELS	ASSESSED VALUE
2012-13	2,368	\$28,396,684	6	\$586,038
2011-12	2,403	\$28,455,795	6	\$628,097
2010-11	2,400	\$28,509,139	6	\$646,491
2009-10	2,543	\$33,908,363	6	\$794,785
2008-09	2,668	\$36,293,352	6	\$794,784

The assessor uses the National Automobile Dealers Association *Marine Appraisal Guide* (NADA) to value newly enrolled vessels. If current or reliable information is not available in NADA, the assessor uses the values of similar vessels from Internet websites to obtain current, comparable sales data. For vessels not new to the county, values are derived using the assessor's in-house vessel valuation factors derived from a vessel market study.

The assessor sends BOE-576-D, *Vessel Property Statement*, to the registered owners of all new vessels. However, the assessor does not send annual *Vessel Property Statements* to the vessel owners of vessels costing \$100,000 or more in accordance with section 441.

We reviewed several vessel assessments and found areas in need of improvement.

RECOMMENDATION 12: Improve the vessels program by: (1) sending an annual *Vessel Property Statement* to the owners of vessels having an aggregate cost of \$100,000 or more pursuant to section 441, and (2) adding sales tax as a component of market value.

Send an annual Vessel Property Statement to the owners of vessels having an aggregate cost of \$100,000 or more pursuant to section 441.

We found that the assessor does not send annual *Vessel Property Statements* to the owners of vessels having an aggregate cost of \$100,000 or more.

Section 441(a) states that each person owning taxable personal property, other than a manufactured home, having an aggregate cost of \$100,000 or more for any assessment year shall file a signed property statement with the assessor. In addition, Rule 171(f) provides that the assessor shall furnish property statement forms and instructions to every person required by law or requested by the assessor to file a property statement. These provisions apply to all vessels, including non-commercial vessels.

The information provided by taxpayers in the property statements provides the assessor with current and accurate information regarding replacement engines and new accessories when making vessel appraisals. Failure to send property statements to owners of vessels having an aggregate cost of \$100,000 or more increases the risk of inaccurate assessments based on insufficient information and is contrary to statute.

Add sales tax as a component of market value.

The assessor initially values vessels using NADA, which is a recognized value guide. However, because NADA has national application, the listed values in this guide do not include California sales tax, which must be included to obtain the full market value.

Generally, the addition of sales or use tax to a value estimate is required to approximate the market value to the consumer. Assessors' Handbook Section 576, *Assessment of Vessels* (AH 576), provides that the addition of taxes, freight, and transportation charges to the list price of a vessel is consistent with an appraisal approach that gives consideration to the consumer's total cost in arriving at market value. Furthermore, the court case of *Xerox Corp. v. Orange County* (1977), 66 Cal.App.3d 746, established that under the market value concept, where price is the basis of value, the sales tax and freight charges are elements of value. Without including all elements of the cost, the assessor's values are understated.

APPENDIXES

A. County-Assessed Properties Division Survey Group

Tuolumne County

Acting Chief

Benjamin Tang

Survey Program Director:

Mike Harris

Manager, Property Taxes

Survey Team Supervisor:

Sally Boeck

Supervisor, Property Taxes

Survey Team Leader:

Ronald Louie

Supervisor, Property Taxes

Survey Team:

James McCarthy

Senior Petroleum and Mining Appraisal Engineer

Andrew Austin

Senior Specialist Property Appraiser

Gary Coates

Associate Property Appraiser

Robert Marr

Associate Property Appraiser

Jay Price

Associate Property Appraiser

Brian Salmon

Associate Property Appraiser

Alan Dannen

Associate Property Auditor-Appraiser

B. Relevant Statutes and Regulations

Government Code

15640. Survey by board of county assessment procedures.

- (a) The State Board of Equalization shall make surveys in each county and city and county to determine the adequacy of the procedures and practices employed by the county assessor in the valuation of property for the purposes of taxation and in the performance generally of the duties enjoined upon him or her.
- (b) The surveys shall include a review of the practices of the assessor with respect to uniformity of treatment of all classes of property to ensure that all classes are treated equitably, and that no class receives a systematic overvaluation or undervaluation as compared to other classes of property in the county or city and county.
- (c) The surveys may include a sampling of assessments from the local assessment rolls. Any sampling conducted pursuant to subdivision (b) of Section 15643 shall be sufficient in size and dispersion to insure an adequate representation therein of the several classes of property throughout the county.
- (d) In addition, the board may periodically conduct statewide surveys limited in scope to specific topics, issues, or problems requiring immediate attention.
- (e) The board's duly authorized representatives shall, for purposes of these surveys, have access to, and may make copies of, all records, public or otherwise, maintained in the office of any county assessor.
- (f) The board shall develop procedures to carry out its duties under this section after consultation with the California Assessors' Association. The board shall also provide a right to each county assessor to appeal to the board appraisals made within his or her county where differences have not been resolved before completion of a field review and shall adopt procedures to implement the appeal process.

15641. Audit of records; appraisal data not public.

In order to verify the information furnished to the assessor of the county, the board may audit the original books of account, wherever located, of any person owning, claiming, possessing or controlling property included in a survey conducted pursuant to this chapter when the property is of a type for which accounting records are useful sources of appraisal data.

No appraisal data relating to individual properties obtained for the purposes of any survey under this chapter shall be made public, and no state or local officer or employee thereof gaining knowledge thereof in any action taken under this chapter shall make any disclosure with respect thereto except as that may be required for the purposes of this chapter. Except as specifically provided herein, any appraisal data may be disclosed by the board to any assessor, or by the board or the assessor to the assessee of the property to which the data relate.

The board shall permit an assessee of property to inspect, at the appropriate office of the board, any information and records relating to an appraisal of his or her property, including "market data" as defined in Section 408. However, no information or records, other than "market data," which relate to the property or business affairs of a person other than the assessee shall be disclosed.

Nothing in this section shall be construed as preventing examination of that data by law enforcement agencies, grand juries, boards of supervisors, or their duly authorized agents, employees, or representatives conducting an investigation of an assessor's office pursuant to Section 25303, and other duly authorized legislative or administrative bodies of the state pursuant to their authorization to examine that data.

15642. Research by board employees.

The board shall send members of its staff to the several counties and cities and counties of the state for the purpose of conducting that research it deems essential for the completion of a survey report pursuant to Section 15640 with respect to each county and city and county. The survey report shall show the volume of assessing work to be done as measured by the various types of property to be assessed and the number of individual assessments to be made, the responsibilities devolving upon the county assessor, and the extent to which assessment practices are consistent with or differ from state law and regulations. The report may show the county assessor's requirements for maps, records, and other equipment and supplies essential to the adequate performance of his or her duties, the number and classification of personnel needed by him or her for the adequate conduct of his or her office, and the fiscal outlay required to secure for that office sufficient funds to ensure the proper performance of its duties.

15643. When surveys to be made.

- (a) The board shall proceed with the surveys of the assessment procedures and practices in the several counties and cities and counties as rapidly as feasible, and shall repeat or supplement each survey at least once in five years.
- (b) The surveys of the ten largest counties and cities and counties shall include a sampling of assessments on the local assessment rolls as described in Section 15640. In addition, the board shall each year, in accordance with procedures established by the board by regulation, select at random at least three of the remaining counties or cities and counties, and conduct a sample of assessments on the local assessment roll in those counties. If the board finds that a county or city and county has "significant assessment problems," as provided in Section 75.60 of the Revenue and Taxation Code, a sample of assessments will be conducted in that county or city and county in lieu of a county or city and county selected at random. The ten largest counties and cities and counties shall be determined based upon the total value of locally assessed property located in the counties and cities and counties on the lien date that falls within the calendar year of 1995 and every fifth calendar year thereafter.
- (c) The statewide surveys which are limited in scope to specific topics, issues, or problems may be conducted whenever the board determines that a need exists to conduct a survey.

(d) When requested by the legislative body or the assessor of any county or city and county to perform a survey not otherwise scheduled, the board may enter into a contract with the requesting local agency to conduct that survey. The contract may provide for a board sampling of assessments on the local roll. The amount of the contracts shall not be less than the cost to the board, and shall be subject to regulations approved by the Director of General Services.

15644. Recommendations by board.

The surveys shall incorporate reviews of existing assessment procedures and practices as well as recommendations for their improvement in conformity with the information developed in the surveys as to what is required to afford the most efficient assessment of property for tax purposes in the counties or cities and counties concerned.

15645. Survey report; final survey report; assessor's report.

(a) Upon completion of a survey of the procedures and practices of a county assessor, the board shall prepare a written survey report setting forth its findings and recommendations and transmit a copy to the assessor. In addition the board may file with the assessor a confidential report containing matters relating to personnel. Before preparing its written survey report, the board shall meet with the assessor to discuss and confer on those matters which may be included in the written survey report.

(b) Within 30 days after receiving a copy of the survey report, the assessor may file with the board a written response to the findings and recommendations in the survey report.

The board may, for good cause, extend the period for filing the response.

(c) The survey report, together with the assessor's response, if any, and the board's comments, if any, shall constitute the final survey report. The final survey report shall be issued by the board within two years after the date the board began the survey. Within a year after receiving a copy of the final survey report, and annually thereafter, no later than the date on which the initial report was issued by the board and until all issues are resolved, the assessor shall file with the board of supervisors a report, indicating the manner in which the assessor has implemented, intends to implement or the reasons for not implementing, the recommendations of the survey report, with copies of that response being sent to the Governor, the Attorney General, the State Board of Equalization, the Senate and Assembly and to the grand juries and assessment appeals boards of the counties to which they relate.

15646. Copies of final survey reports to be filed with local officials.

Copies of final survey reports shall be filed with the Governor, Attorney General, and with the assessors, the boards of supervisors, the grand juries and assessment appeals boards of the counties to which they relate, and to other assessors of the counties unless one of these assessors notifies the State Board of Equalization to the contrary and, on the opening day of each regular session, with the Senate and Assembly.

Revenue and Taxation Code

75.60. Allocation for administration.

(a) Notwithstanding any other provision of law, the board of supervisors of an eligible county or city and county, upon the adoption of a method identifying the actual administrative costs associated with the supplemental assessment roll, may direct the county auditor to allocate to the county or city and county, prior to the allocation of property tax revenues pursuant to Chapter 6 (commencing with Section 95) and prior to the allocation made pursuant to Section 75.70, an amount equal to the actual administrative costs, but not to exceed 5 percent of the revenues that have been collected on or after January 1, 1987, due to the assessments under this chapter. Those revenues shall be used solely for the purpose of administration of this chapter, regardless of the date those costs are incurred.

(b) For purposes of this section:

- (1) "Actual administrative costs" includes only those direct costs for administration, data processing, collection, and appeal that are incurred by county auditors, assessors, and tax collectors. "Actual administrative costs" also includes those indirect costs for administration, data processing, collections, and appeal that are incurred by county auditors, assessors, and tax collectors and are allowed by state and federal audit standards pursuant to the A-87 Cost Allocation Program.
- (2) "Eligible county or city and county" means a county or city and county that has been certified by the State Board of Equalization as an eligible county or city and county. The State Board of Equalization shall certify a county or city and county as an eligible county or city and county only if both of the following are determined to exist:
 - (A) The average assessment level in the county or city and county is at least 95 percent of the assessment level required by statute, as determined by the board's most recent survey of that county or city and county performed pursuant to Section 15640 of the Government Code.
 - (B) For any survey of a county assessment roll for the 1996-97 fiscal year and each fiscal year thereafter, the sum of the absolute values of the differences from the statutorily required assessment level described in subparagraph (A) does not exceed 7.5 percent of the total amount of the county's or city and county's statutorily required assessed value, as determined pursuant to the board's survey described in subparagraph (A).

- (3) Each certification of a county or city and county shall be valid only until the next survey made by the board. If a county or city and county has been certified following a survey that includes a sampling of assessments, the board may continue to certify that county or city and county following a survey that does not include sampling if the board finds in the survey conducted without sampling that there are no significant assessment problems in the county or city and county. The board shall, by regulation, define "significant assessment problems" for purposes of this section, and that definition shall include objective standards to measure performance. If the board finds in the survey conducted without sampling that significant assessment problems exist, the board shall conduct a sampling of assessments in that county or city and county to determine if it is an eligible county or city and county. If a county or city and county is not certified by the board, it may request a new survey in advance of the regularly scheduled survey, provided that it agrees to pay for the cost of the survey.

Title 18, California Code of Regulations

Rule 370. Random selection of counties for representative sampling.

- (a) SURVEY CYCLE. The board shall select at random at least three counties from among all except the ten largest counties and cities and counties for a representative sampling of assessments in accordance with the procedures contained herein. Counties eligible for random selection will be distributed as equally as possible in a five-year rotation commencing with the local assessment roll for the 1997–98 fiscal year.
- (b) RANDOM SELECTION FOR ASSESSMENT SAMPLING. The three counties selected at random will be drawn from the group of counties scheduled in that year for surveys of assessment practices. The scheduled counties will be ranked according to the size of their local assessment rolls for the year prior to the sampling.
 - (1) If no county has been selected for an assessment sampling on the basis of significant assessment problems as provided in subdivision (c), the counties eligible in that year for random selection will be divided into three groups (small, medium, and large), such that each county has an equal chance of being selected. One county will be selected at random by the board from each of these groups. The board may randomly select an additional county or counties to be included in any survey cycle year. The selection will be done by lot, with a representative of the California Assessors' Association witnessing the selection process.
 - (2) If one or more counties are scheduled for an assessment sampling in that year because they were found to have significant assessment problems, the counties eligible for random selection will be divided into the same number of groups as there are counties to be randomly selected, such that each county has an equal chance of being selected. For example, if one county is to be sampled because it was found to have significant assessment problems, only two counties will then be randomly selected and the pool of eligible counties will be divided into two groups. If two counties are to be sampled because they were found to have significant assessment problems, only one county will be randomly selected and all counties eligible in that year for random selection will be pooled into one group.

- (3) Once random selection has been made, neither the counties selected for an assessment sampling nor the remaining counties in the group for that fiscal year shall again become eligible for random selection until the next fiscal year in which such counties are scheduled for an assessment practices survey, as determined by the five-year rotation. At that time, both the counties selected and the remaining counties in that group shall again be eligible for random selection.

(c) **ASSESSMENT SAMPLING OF COUNTIES WITH SIGNIFICANT ASSESSMENT PROBLEMS.** If the board finds during the course of an assessment practices survey that a county has significant assessment problems as defined in Rule 371, the board shall conduct a sampling of assessments in that county in lieu of conducting a sampling in a county selected at random.

(d) **ADDITIONAL SURVEYS.** This regulation shall not be construed to prohibit the Board from conducting additional surveys, samples, or other investigations of any county assessor's office.

Rule 371. Significant assessment problems.

(a) For purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, "significant assessment problems" means procedure(s) in one or more areas of an assessor's assessment operation, which alone or in combination, have been found by the Board to indicate a reasonable probability that either:

- (1) the average assessment level in the county is less than 95 percent of the assessment level required by statute; or
- (2) the sum of all the differences between the Board's appraisals and the assessor's values (without regard to whether the differences are underassessments or overassessments), expanded statistically over the assessor's entire roll, exceeds 7.5 percent of the assessment level required by statute.

(b) For purposes of this regulation, "areas of an assessor's assessment operation" means, but is not limited to, an assessor's programs for:

- (1) Uniformity of treatment for all classes of property.
- (2) Discovering and assessing newly constructed property.
- (3) Discovering and assessing real property that has undergone a change in ownership.
- (4) Conducting audits in accordance with Revenue and Taxation Code section 469.
- (5) Assessing open-space land subject to enforceable restriction, in accordance with Revenue and Taxation Code sections 421 et. seq.
- (6) Discovering and assessing taxable possessory interests in accordance with Revenue and Taxation Code sections 107 et. seq.

- (7) Discovering and assessing mineral-producing properties in accordance with Property Tax Rule 469.
 - (8) Discovering and assessing property that has suffered a decline in value.
 - (9) Reviewing, adjusting, and, if appropriate, defending assessments for which taxpayers have filed applications for reduction with the local assessment appeals board.
- (c) A finding of "significant assessment problems," as defined in this regulation, would be limited to the purposes of Revenue and Taxation Code section 75.60 and Government Code section 15643, and shall not be construed as a generalized conclusion about an assessor's practices.

ASSESSOR'S RESPONSE TO BOE'S FINDINGS

Section 15645 of the Government Code provides that the assessor may file with the Board a response to the findings and recommendations in the survey report. The survey report, the assessor's response, and the BOE's comments on the assessor's response, if any, constitute the final survey report.

The Tuolumne County Assessor's response begins on the next page. The BOE has no comments on the response.



KEN CAETANO
Assessor-Recorder

COUNTY OF TUOLUMNE

OFFICE OF ASSESSOR-RECORDER

Administration Center • 2 South Green Street • Sonora, CA 95370

Assessor: (209) 533-5535
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Recorder: (209) 533-5531
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September 18, 2014

RECEIVED

SEP 25 2014

Mr. Dean R. Kinnee, Chief
County-Assessed Properties Division
State Board of Equalization
PO Box 942879
Sacramento, CA 94279-0064

County-Assessed Properties Division
State Board of Equalization

Re: Response to Tuolumne County Assessment Practices Survey Report

Dear Mr. Kinnee,

Pursuant to California Government Code section 15645(b), please find my written response to the findings and recommendations contained in the post-conference draft of the Tuolumne County Assessment Practices Survey Report. Please include my response in the final Assessment Practices Survey Report.

Although there are several areas in both the assessment of real and personal property that are in need of improvement, I'm glad to see that the report states that "... most properties and property types are assessed correctly". The ongoing mission of this office is to provide information, services and accurate property assessments through our commitment to implement the property tax laws of the State of California with the utmost quality and integrity. This survey affirms our commitment to providing the taxpayers of Tuolumne County with fair and equitable assessments through quality assessment practices.

I would like to commend the Board's Survey Team and especially their leaders, Mike Harris and Sally Boeck, for their professionalism and consideration during this survey process. I welcome the objective review of our office and while I may disagree with some of the recommendations, I believe that the results of the survey will have a positive impact on a number of our business practices.

I would also like to express my deepest gratitude to all of the employees of the Tuolumne County Assessor-Recorder's Office for their hard work, expertise, dedication and commitment to public service.

Sincerely,

Ken Caetano, Assessor-Recorder
County of Tuolumne

Enclosure

Recommendations and Responses

1. Assess all cemeteries in the county and exempt those cemeteries, or portions thereof, that qualify for the exemption.

Concur

2. Improve the change in ownership program by correctly implementing the penalty process in accordance with section 482(a).

We have avoided going through the penalty process since it would cause too much administrative cost for very little benefit. I was unaware of the abatement process under 483(b) which would simplify the process and eliminate most of those administrative costs. I will recommend that we institute the penalty process in the near future.

3. Improve the change in ownership program by providing documentation to support enrolling the purchase price as current market value.

While appraisers do not document the comparable sales that are used when enrolling the purchase price as current market value, they do review comparable sales to determine whether a sale meets the criteria of being an "arm's length" transaction. If a sale doesn't appear "typical", a comparable sales analysis will be attached to the record.

4. Document all building permits received for solar installations in the property record files.

Concur, we have already begun to implement a process to document permits for solar installations on the property record.

5. Value all properties in decline-in-value status at current market value.

Due to staffing constraints, we have had to take some shortcuts to apply Prop 8 reductions to thousands of properties that were eligible. In response to the immediate need to identify properties that were eligible for reductions, we initially studied market data and applied factors to approximate the amount of the decline in value according to the base year of the property. In succeeding years, further reductions were made "across-the-board" as indicated by annual market studies. In the past year, a sales ratio analysis was done to compare selling prices of properties that were under Prop 8. We believe that our approach, while far from perfect, was a reasonable approach to a problem that had no other solution given the time and manpower constraints. Some commercial properties were addressed individually and their values were revised accordingly.

6. Improve the CLCA property program by using an appropriate income stream for capitalizing restricted tree and vine income.

Concur

7. Improve the taxable possessory interest program by: (1) using Board-prescribed form BOE-502-P, *Possessory Interests Annual Usage Report*, (2) considering market rents in the value determination of taxable possessory interests, (3) assessing all taxable possessory interests located at the fairgrounds that do not meet the requirements of the low-value property exemption, (4) deducting allowed expenses from gross income when valuing taxable possessory interests by the income approach-direct method, (5) reappraising taxable possessory interests in compliance with section 61(b)(2), and (6) properly issuing supplemental assessments for taxable possessory interests.

(1) I believe that we receive very good cooperation from our locally-developed letter, but we could certainly include a copy of BOE-502-P to comply with the regulation. (2) Concur. (3) Concur. (4) We are aware of the fact that some management and other operating expenses should be deducted from the gross rent and have made those adjustments on recently negotiated leases. We may have missed some in the past. (5) Concur. (6) We still do have a software limitation on creating supplemental assessments on the Unsecured Roll.

8. Measure declines in value for mineral properties using the entire appraisal unit as required by Rule 469.

Concur.

9. Perform the minimum number of audits of profession, trades, and businesses pursuant to section 469.

Concur.

10. Request a waiver of the statute of limitations when an audit will not be completed in a timely manner.

Concur

11. Improve the manufactured homes program by: (1) periodically reviewing manufactured home assessments for declines in value, (2) reassessing all manufactured homes that are involved in a change in ownership.

(1) Due to staffing constraints, we have not been able to do as many reviews of manufactured home assessments as we would like. We do receive phone calls and requests for review from manufactured home owners and we respond by reviewing those assessments. (2) Concur.

12. Improve the vessels program by: (1) sending an annual *Vessel Property Statement* to the owners of vessels having an aggregate cost of \$100,000 or more pursuant to section 441, and (2) adding sales tax as a component of market value.

(1) Concur. (2) We use the NADA guide as a resource for our boat values. We also generally use the Average Retail value in that guide as our guide to the assessed value. After reviewing sales and listings, we have concluded that the NADA value is very close to the local market value including the sales tax. In those cases, we do not make an additional adjustment to add sales tax to the NADA value.